

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

ORIGINAL

In the Matter of the Application of )

HAWAIIAN ELECTRIC COMPANY, INC.) DOCKET NO. 2008-0083

For Approval of Rate Increases and )

Revised Rate Schedules and Rules. )

TRANSCRIPT OF PROCEEDINGS

VOLUME V

Public Utilities Commission hearing held on Friday,  
October 30, 2009, commencing at 9 a.m., at 465 South King  
Street, Honolulu, Hawaii, pursuant to Notice.

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Certified Shorthand Reporter

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## I N D E X

EXAMINATION OF LYNNE UNEMORI	DIRECT	CROSS-EXAMINATION	
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## E X H I B I T S

CA HEARING EXHIBITS		RECEIVED IN EVIDENCE
No. 1	Contract. (Submitted prehearing.)	900
No. 2	Hawaii Energy Efficiency Program Annual Plan	900
	Document submitted by SAIC on May 1st, 2009.	
	(Submitted prehearing.)	
No. 9	Checklist.	867
No. 10	A memo dated August 1, 2006, Dear Prospective	867
	Honolulu Seawater Air Conditioning, LLC	
	Customer. Re: Hawaiian Electric Company, Inc.	
	Maximum Renewable Energy Effort.	
No. 11	A letter by William M. Mahulu to Dear Customer	867
	Dated August 1, 2006. Re: Hawaiian Electric	
	Company, Inc., Maximum Renewable Energy Effort.	

## P R O C E E D I N G S

CHAIRMAN CALIBOSO: Good morning.

I would like to reconvene this proceeding.

For the record, my name is Carlito Caliboso, Chairman of the Public Utilities Commission, joined by Commission John Cole and Commissioner Les Kondo, and our consultant Scott Hempling.

Can I have the parties appearances for the record, please?

MR. WILLIAMS: Chairman, good morning.

Thomas Williams appearing on behalf of Hawaiian Electric Company.

And good morning to the Commissioners and Mr. Hempling.

CHAIRMAN CALIBOSO: Good morning. Thank you.

MR. ITOMURA: Good morning, Chair, Commissioner Cole, Commissioner Kondo, and Mr. Hempling.

John Itomura on behalf of the Consumer Advocate. With me this morning is Cat Awakuni, Executive Director, Steve Nishina, and Mike Brosch.

MR. MCCORMICK: Good morning, Chairman Caliboso, Commission Cole, Commission Kondo, representing the Department of Defense are James McCormick and Dr. Kay Davoodi.

CHAIRMAN CALIBOSO: Thank you all. Good morning, again.

1                   And we're going to be starting our management audit  
2 panel.

3                   Anything to take care of before we start the panel?

4                   MR. ITOMURA: The Consumer Advocate, in response to  
5 Mr. Hempling's request to provide discussion points, made a  
6 written list of some issues, and we weren't exactly sure what  
7 the process would be considering that we're bringing a written  
8 document, so we leave that up to the Commission.

9                   However the intent is simply to expedite discussion  
10 by having all the parties have something to look at; so, if  
11 there's any process we need to determine, I guess we could do  
12 that now. We have talked with the parties and everyone has a  
13 copy.

14                  CHAIRMAN CALIBOSO: And they have no objections; is  
15 that correct?

16                  Well, let's talk about this piece of paper first.  
17 We have a one-sided sheet of paper. There's no title, but the  
18 first number is titled Focused Regulatory Audits. Number two  
19 is Focused Management Audit. Number three is Regulatory Audit  
20 Processes.

21                  There's no title on the document but this is your  
22 document, Mr. Itomura?

23                  MR. ITOMURA: Correct. So if the Commission  
24 prefers, we could, at a later date, on Monday, when the  
25 offices are opened, we can title it and provide it as a

1 hearing exhibit should the Commission prefer that or it could  
2 remain just simply as a --

3 CHAIRMAN CALIBOSO: Well, why don't we title it CA  
4 Hearing Exhibit 1 for now. And let me -- and my  
5 understanding -- I'm sorry, go ahead.

6 MR. ITOMURA: It would be on Exhibit 3 for CA  
7 Exhibits.

8 CHAIRMAN CALIBOSO: Okay. So hearing Exhibit -- CA  
9 Hearing Exhibit 3. Correct?

10 MR. ITOMURA: Correct.

11 CHAIRMAN CALIBOSO: And everyone has a copy of  
12 this?

13 Mr. Williams, do you have a copy and Mr. McCormick  
14 do you have a copy?

15 MR. MCCORMICK: Yes, we have a copy.

16 MR. WILLIAMS: Mr. Chairman, I have a copy. Thank  
17 you.

18 CHAIRMAN CALIBOSO: This is basically the CA's  
19 collection of ideas that you could possibly discuss today.  
20 It's not any pre-existing document. It's just a document you  
21 created to communicate to the parties different ideas on  
22 management audit. That's correct?

23 MR. ITOMURA: Correct.

24 CHAIRMAN CALIBOSO: Any objections?

25 MR. WILLIAMS: We do not have an objection to the



1 use of this piece of paper, Mr. Chairman. Many of these ideas  
2 are from Mr. Brosch's settlement testimony in fact.

3 CHAIRMAN CALIBOSO: Mr. McCormick?

4 MR. MCCORMICK: The DOD has no objection.

5 CHAIRMAN CALIBOSO: Any questions?

6 COMMISSIONER KONDO: May I make a clarifying  
7 comment.

8 Should it be CA Hearing Exhibit 4 because you have  
9 a three already, Additional Supplement Testimony in the  
10 exhibits of David C. Parcel.

11 MR. ITOMURA: Correct.

12 COMMISSIONER KONDO: So it will be labeled CA  
13 Hearing Exhibit 4, correct, Jon?

14 MR. ITOMURA: Correct.

15 COMMISSIONER KONDO: Thank you.

16 CHAIRMAN CALIBOSO: All right. So this is CA  
17 Hearing Exhibit 4.

18 (CA Hearing Exhibit No. 4 was marked for  
19 Identification and received into evidence.)

20 CHAIRMAN CALIBOSO: We'll now start with --  
21 anything else?

22 MR. WILLIAMS: Yes. Mr. Chairman, can I ask --  
23 there was, I understand at the hearings yesterday, a question  
24 that was referred to Mr. Alm with respect to the role of  
25 accounting executives for the Company by Mr. Young to Mr. Alm;

1 is that correct?

2 CHAIRMAN CALIBOSO: Which panel was that?

3 Do you recall?

4 MR. WILLIAMS: I believe it was the Rate Design  
5 panel, Panel 10.

6 CHAIRMAN CALIBOSO: Since we have Mr. Alm here  
7 today, we'll cover that. We'll mix it into the management  
8 audit panel; is that okay?

9 MR. WILLIAMS: Yes. And we have prepared some  
10 possible hearing exhibits that would assist with that,  
11 including a checklist that those account folks used in talking  
12 to their major customers.

13 CHAIRMAN CALIBOSO: Do you have that available now?

14 MR. WILLIAMS: We do but we haven't had a chance to  
15 distribute it to the other parties. Perhaps, we could just  
16 take a second and distribute it to everyone, but not trying to  
17 enter it yet until that subject comes up.

18 CHAIRMAN CALIBOSO: All right. Do we need to  
19 recess?

20 MR. WILLIAMS: I don't -- it should just take a  
21 second, if Mr. Lee could distribute that.

22 CHAIRMAN CALIBOSO: Why don't we distribute it now.  
23 My understanding from Mr. Hempling is he probably won't get to  
24 that until after the morning break.

25 MR. WILLIAMS: We can distribute it right before

1 the morning break, right after you take the break to not  
2 disrupt your hearing.

3 CHAIRMAN CALIBOSO: Okay. Anything else?

4 All right. We'll start with the Management Audit  
5 panel. The Management Audit panel is necessarily broad;  
6 especially, the reasons for or possible reasons for Management  
7 Audit. So we're going to take this opportunity to go back at  
8 a high level and try to gather some thoughts on some of the  
9 topics that we covered this week through Mr. Hempling's  
10 questioning at the start of this panel.

11 So with that, Mr. Hempling you can proceed.

12 MR. HEMPLING: Thank you, Mr. Chairman.

13 Good morning, Mr. Alm.

14 These questions will be for you unless otherwise  
15 indicated.

16 Let's start with the discussion of the relationship  
17 between this rate case and the decoupling case.

18 The Company's position is that it needs full  
19 recovery of the full costs of CT-1.

20 MR. ALM: That's correct.

21 MR. HEMPLING: And under your proposal to the  
22 Commission you'll get full recovery only if the Commission  
23 grants the Company its full decoupling proposal plus RAM.  
24 Correct?

25 MR. ALM: I believe that's correct, yes.

1 MR. HEMPLING: So by your own proposal, the Company  
2 is at risk of not recovering CT-1 costs if the Commission does  
3 not adopt the Company's proposed decoupling plus RAM?

4 MR. ALM: Yes.

5 MR. HEMPLING: The Company does not get what it  
6 requested in the decoupling proposal. The Company would have  
7 to file for new rates to reflect the full CT-1 costs?

8 MR. ALM: Yes.

9 MR. HEMPLING: And that approach would entail the  
10 delay in the Company's recovery of CT-1 costs?

11 MR. ALM: Yes.

12 MR. HEMPLING: So in your own proposal, you achieve  
13 your own rate case goals only if the Commission goes alongside  
14 with your full proposal in the decoupling case. Correct?

15 MR. ALM: Yes, as long as full proposal to --

16 MR. HEMPLING: To the RAM?

17 MR. ALM: Right, the two major features of it, yes.

18 MR. HEMPLING: Decoupling plus RAM. Correct?

19 MR. ALM: Yes.

20 MR. HEMPLING: Well, why did you put the Company at  
21 risk like that?

22 MR. ALM: The Company basically can do yearly rate  
23 cases, and we can shape ourselves up for that, and that could  
24 be a possible future for ourselves. I think, as Mr. Brosch  
25 has noted and others, that with a goal to both do 40 percent

1 renewables and 30 percent energy efficiency, clearly there  
2 will be dramatic alterations in our business in the coming  
3 years.

4 One way to do it is yearly rate cases, another way  
5 that's been explored around the country and is increasingly  
6 coming into play as decoupling as a different way of handling  
7 the changes in the utility business --

8 MR. HEMPLING: My question --

9 MR. ALM: -- so --

10 MR. HEMPLING: -- is different.

11 My question is, Why did you pick an approach to put  
12 the Company at risk?

13 MR. WILLIAMS: Mr. Hempling, is your question why  
14 did we give up the request for a step increase for CT-1 base  
15 in the Settlement Agreement, because we did have that in our  
16 individual rate case?

17 MR. HEMPLING: I think Mr. Alm understands the  
18 question.

19 MR. ALM: Well, the question is, Why did we give up  
20 the step as part of our negotiated settlement?

21 If it's why did we not go for yearly rate cases,  
22 because we got very strong indications that that was not the  
23 desire of the Commission and it was the Commission that  
24 initiated the idea of decoupling at the time it was called  
25 incentive realignment, and we agreed to pursue that in lieu of

1 a strategy of (inaudible) rate case.

2 MR. HEMPLING: So you're saying the situation the  
3 Company finds itself in now towards the risk of underrecovery  
4 if the Commission does not approve decoupling plus RAM is the  
5 Commission's fault?

6 MR. ALM: Well, Mr. Hempling, you're doing that,  
7 not me. This has been going on for a couple of years around  
8 here as we've been trying to figure out how to structure  
9 ratemaking activities for the Company going forward. The  
10 Commission has been part of those discussions, the Consumer  
11 Advocate has been, the Department of Defense has been, and we  
12 have been -- I'm not pointing fingers. I'm simply describing  
13 the process that we've been going through the last couple of  
14 years.

15 MR. HEMPLING: You don't think the Company would be  
16 in a better position right now if this proposal to the  
17 Commission included an alternative where the Company's full  
18 recovery of CT-1 was not dependent on the Commission's  
19 complete approval of decoupling in your version of RAM?

20 You don't think the Company would be in a better  
21 spot right now?

22 MR. ALM: You mean had we not agreed to settle the  
23 case the way the Department of Defense and Consumer Advocate  
24 had pursued the step hearing at this hearing?

25 MR. HEMPLING: That wasn't my question.

1 My question was given the Commission alternative.

2 MR. ALM: I'll argue that is the major alternative  
3 and we chose to -- in fact, because we thought, among other  
4 things, that the decoupling docket was, in fact, moving along,  
5 and that we had specifically had indications that yearly rate  
6 cases would not be favorably looked upon, that we felt the  
7 combination that's been proposed is, in fact, the direction we  
8 were all headed.

9 MR. HEMPLING: It's your best choice?

10 MR. ALM: My best choice.

11 MR. HEMPLING: Let's talk about the cost  
12 projections for CT-1.

13 In your application to the Commission for approval  
14 of the plan projected a cost of 137 million?

15 MR. ALM: I believe that's the correct number, yes.

16 MR. HEMPLING: The application did not make a  
17 commitment to cap the costs at 137 million. Correct?

18 MR. ALM: Correct.

19 MR. HEMPLING: So what was the reason for  
20 mentioning the number of 137 million in the application?

21 MR. ALM: Because when we apply, we give our best  
22 projection of the costs at the time, if the Commission is  
23 entitled to have our sense of what it will be.

24 MR. HEMPLING: Well, did the application include a  
25 letter that there was some likelihood of an average above the

1 137 million?

2 MR. ALM: I haven't read through the entire  
3 application recently but I suspect not.

4 MR. HEMPLING: Had you known at the time of the  
5 application that the costs would be 193 million would you  
6 still have proposed the plan?

7 MR. ALM: Yes.

8 MR. HEMPLING: Did the Company do all it could to  
9 make the 137-million-dollar estimate an accurate estimate?

10 MR. ALM: Under our processes at the time, yes.

11 MR. HEMPLING: There was nothing the Company could  
12 have done to make that estimate more accurate, is that your  
13 testimony?

14 MR. ALM: There are things that could probably have  
15 been done and that's one of the things we're reviewing now;  
16 and, actually when we get to discuss the Management Audit  
17 issues, one of the suggestions we're going to have is to  
18 review the way the Company estimates in capital projects for  
19 submission to the Commission.

20 MR. HEMPLING: So there are some improvements you  
21 think the Company can make in the area of estimating projects  
22 costs for large projects?

23 MR. ALM: Absolutely.

24 MR. HEMPLING: Like what?

25 MR. ALM: More advanced engineering and more time



1 spent trying to dig deeper into what the likely costs will be  
2 than the ways we've done it historically; and, I think  
3 Mr. Isler's testimony, in response to your questions, got into  
4 those issues significantly.

5 MR. HEMPLING: If the Commission had made the  
6 Company responsible for any overage above the 137 million, if  
7 the Commission had made that responsibility clear in its  
8 approval order, would the Company have handled project costs  
9 management going forward differently?

10 MR. ALM: When you say "responsibility," you mean  
11 we would not have received recovery for anything over or... ?

12 MR. HEMPLING: Correct. Let me rephrase the  
13 question for clarity.

14 If the Commission had said in its approval order  
15 any dollars above \$137 million are for the Company's  
16 shareholders to absorb, would the Company have handled the  
17 management of the project any differently?

18 MR. ALM: I don't think we would have handled the  
19 management of the project any differently. I think we -- it  
20 would probably have caused us to relook at the estimate that  
21 we had brought in and probably try to do more work to achieve  
22 greater sense of assurance of the numbers.

23 I think, as Mr. Isler testified, we do a certain  
24 level of preliminary engineering and then go out to bid and  
25 then work with whoever is the contractor on the exact costs of

1 it. We could put more money into preliminary engineering,  
2 take that farther out before we bring it to the Commission,  
3 which is what we're looking at today, though it does mean the  
4 expenditure of more money, which may sometimes lead you not to  
5 do a project, and that will be one of the discussions  
6 presumably, if we had a managing audit in that area; but, if  
7 we spend more money up front looking at these things, the  
8 estimates or the numbers we brought to the Commission would be  
9 better and then the issue of whether the Company should be  
10 bound by those numbers for us would be -- well, I mean, I  
11 would lead to that being a question that would be something  
12 the Company might well have to live with.

13 MR. HEMPLING: Why should a difference in who bears  
14 the risk of the overage as between the Company and the  
15 ratepayers make a difference to the Company in the level of  
16 care with which it estimates the project costs?

17 Why should that difference in risk bearing make a  
18 difference in the care with which you make a cost estimate?

19 MR. ALM: I don't think it's the care with which  
20 you make the cost estimate. I think it's the levels of  
21 estimation you go through before you bring a project to the  
22 Commission; so, I think care is exhibited.

23 The question is how much additional engineering you  
24 do before you will come to the Commission to ask permission to  
25 do something and essentially expend significant sums of money

1 without Commission approval or whether you come to the  
2 Commission and get approval and do the engineering afterwards,  
3 if the difference is small, it probably doesn't stand out when  
4 the difference is as large as it is in the CT-1 numbers, then  
5 it more stands out should we have done -- spent more money to  
6 achieve greater levels of engineering estimation to have given  
7 the Commission probably a number that would have been higher  
8 than the 137; though, some of the changes, and that would, you  
9 know, part of the discussion, I think, we'd have if we audited  
10 this area, is what portion of it may be due to factors that  
11 could not have been anticipated at the time no matter what.

12           You know, certain costs may just not be predictable  
13 and then do those belong as a shareholder risk; or, are they  
14 reasonable -- an activity that, even with reasonable care, the  
15 Company should be able to receive recovery for it.

16           But that would be a fair subject for an audit and a  
17 discussion. You know, we'll probably be looking at that area  
18 anyway, but our thought was that that, in fact, was one of the  
19 areas that, in part, because of CT-1 might be a very useful  
20 area for us to audit it. It's just how we do project  
21 budgeting and estimation.

22           MR. HEMPLING: And that whole, long answer you just  
23 gave you don't mean to describe as a higher level of care  
24 relative to the level of care that you did exercise in making  
25 the estimate, it's not a higher level of care?

1 MR. ALM: Yeah, I guess, what I struggle with is  
2 that at each level we try to do our very best professional job  
3 to -- and exercise care at each level.

4 MR. HEMPLING: Okay.

5 MR. ALM: If you do an additional amount of work  
6 and do that with care, it adds to the quality of the estimate,  
7 but each level needs to be done with care and professionally.

8 MR. HEMPLING: And in the discussion we just had,  
9 it was the risk that it was the difference in the risks that  
10 the Company would bear on the project that would cause you to  
11 take these exhibit steps that you just described in your prior  
12 answer?

13 MR. ALM: That's one reason is specifically if you  
14 say we're responsible for the overage, but I really think the  
15 base of it is we don't like it either to come into the  
16 Commission and say we got an overrun on a project that's above  
17 the amount you authorized to; and, I think CT-1, more than any  
18 other, has driven home the position that we put you and the CA  
19 and the Department of Defense in, including ourselves, and  
20 then we need to be examining our capital budgeting process in  
21 any event.

22 MR. HEMPLING: I know you want to give compete  
23 answers. I'm going to ask you, though, to be as succinct as  
24 you can; but, you would agree that the best policy -- would  
25 you agree that a good policy for the Company and for the

1 ratepayers is to view the shareholder interest and a ratepayer  
2 interest as converging in the terms of the goal of having  
3 accurate estimates?

4 MR. ALM: Yes.

5 MR. HEMPLING: So there shouldn't be, as a matter  
6 of policy, some differential in the depth of the analysis that  
7 the Company undertakes depending on whether the risk of an  
8 overage is with the shareholders or with the ratepayer. There  
9 should not be a differential in the detail in level of  
10 analysis. Correct?

11 MR. ALM: Correct.

12 MR. HEMPLING: Let's talk about the used and useful  
13 debate.

14 First, some background on the biofuels contract,  
15 please.

16 And thank you for this dialogue this morning. I  
17 appreciate your care in this conversation.

18 Some background of the biofuels contract. As we  
19 speak, what is the status of the biofuels contract?

20 MR. ALM: We have two contracts. The contract for  
21 the test amount of supply, which, I believe, is 400,000  
22 gallons, has been ordered and it's on its way to Hawaii will  
23 be received in late November. I believe it's produced, put in  
24 tankers, trained across the country, put on a boat and shipped  
25 to Hawaii.

1           So in late November, early December, we will have  
2   it on-site. The testing will commence around December 7th on  
3   the testing for the biofuels permit.

4           The second contract is in final decision-making at  
5   the Company and it will be filed with the -- it will be filed  
6   with the Commission in November. That would be for the  
7   two-year contract.

8           One other, as we sent a letter to the Commission  
9   saying we, you know, because we believe the Commission is  
10   looking for signs of good faith and commitment by the Company,  
11   we did already pay for that first supply --

12           MR. HEMPLING: Okay.

13           MR. ALM: -- of biofuel.

14           MR. HEMPLING: Again, just to make sure I  
15   understand it.

16           So the first contract has been signed, the second  
17   contract has been negotiated but is under review within the  
18   Company.

19           MR. ALM: We're negotiating it, I believe. I don't  
20   believe we've sign it yet.

21           MR. HEMPLING: The second one?

22           MR. ALM: Right.

23           MR. HEMPLING: The first one is signed?

24           MR. ALM: Signed and ordered and on its way to us.

25           MR. HEMPLING: And I apologize again. The first

1 one gets you 400,000 gallons which is sufficient for what  
2 purpose?

3 MR. WILLIAMS: To do the testing for the air permit  
4 filing with the Department of Health.

5 MR. HEMPLING: Concerning the second contract, if  
6 it all goes positively, when would you expect to have the fuel  
7 from the second contract available to the Company with  
8 sufficient quantity of supply to allow the Company to supply  
9 firm power reliably as a peaking plant.

10 MR. ALM: Mr. Hempling, I'm guessing. I could --  
11 let me turn around and try to find out.

12 MR. HEMPLING: Don't guess. Turned around and find  
13 out.

14 (Whereupon, Mr. Alm briefly confers with his  
15 colleagues.)

16 MR. ALM: Well, I'm going to have to call and find  
17 out what the lead time on that is.

18 MR. HEMPLING: Would you do that so we can have the  
19 answer. You don't have to do it at this moment; so, we can  
20 have the answer after the break.

21 MR. ALM: Okay.

22 MR. HEMPLING: For now, can you give me a rough  
23 feel or do you not have that information?

24 MR. ALM: It's intended that we have it, I believe,  
25 mid next year.

1 MR. HEMPLING: Okay. Let's get the best  
2 information we can recognizing that there are uncertainties  
3 with anything like this.

4 MR. WILLIAMS: I would point out, Mr. Chairman,  
5 that Mr. Simmons was the witness and had that information and  
6 was prepared to testify to it on CT-1 panel.

7 CHAIRMAN CALIBOSO: Thank you, Mr. Williams.

8 MR. HEMPLING: When did the Company first begin  
9 searching for biofuel supply?

10 MR. ALM: Sorry. This set of -- these two  
11 contracts or the first one, the Imperium contract, which was  
12 rejected by the Commission?

13 MR. HEMPLING: When did the Company first begin  
14 searching for a biofuel supply?

15 MR. ALM: Okay. We first began searching for  
16 biofuel supply probably six or seven ago. As I recall, based  
17 on capacity problems at the Maui electric unit, initially we  
18 found Pacific bio-diesel which supplied us with a supply that  
19 we could use in start-up of the MECO units and avoid load  
20 capacity problems in the Maui units.

21 That was our first experience with bio-diesel.  
22 When we were looking at the CT-1 docket and negotiating with  
23 the Consumer Advocate, we talked to the Consumer Advocate  
24 about the fact that begun looking at the use of ethanol in our  
25 system, bio-diesel in our system; so, we were already working



1 with industry folks.

2 We worked with an outfit called Blue Earth, and  
3 there's been discussion of that. We have been looking at the  
4 RSPO, let's see, it's the Sustainable Palm Oil organization  
5 worldwide that we're a member of; so, we've been looking at  
6 Malaysia and other overseas sources.

7 The first time we actually began to negotiate a  
8 contract, the one we had with Pacific bio-diesel, is following  
9 the agreement and the subsequent Commission acceptance of that  
10 agreement as part of the CT-1 docket, we began a bid process  
11 to acquire a supply of fuel for CT-1.

12 MR. HEMPLING: That's where I'd like to pause and  
13 understand this better.

14 So at the time that you concluded the negotiations  
15 with the Consumer Advocate concerning the prerequisite of a  
16 biofuel supply for they're agreeing to the plan to file the  
17 application for the plan -- excuse me -- that was way too  
18 wordy. I'll start again.

19 At the time that you were negotiating the Consumer  
20 Advocate over biofuels component of the plant, did you have,  
21 at that time, as a Company, an understanding of the certainty  
22 or uncertainty associated with acquiring a biofuel supply  
23 sufficient to fuel this plant?

24 MR. ALM: We knew it was an emerging market, but it  
25 looked as if significant investments were being made into it,

1 including the building of a refinery in Kalaeola Barbers Point  
2 Deep Draft Harbor area such that a supply would be available  
3 to it; so, it was an emerging market, but we felt that  
4 supplies were available.

5 MR. HEMPLING: Did the conversations between the  
6 Company and the Consumer Advocate anticipate the possibility  
7 that there were would be a biofuel supply in time for the  
8 Company's desired in-service date?

9 MR. ALM: I believe at the time we all believed  
10 biofuels would be available.

11 MR. HEMPLING: So nobody negotiated the risks  
12 associated with the unavailability of a biofuel supply?

13 And I'm distinguishing any post-operation  
14 interruption of supply from a pre-operation unavailability of  
15 supply, no one negotiated the risks associated with there  
16 being an unavailability of supply prior to the Company's  
17 desired in-service date.

18 MR. ALM: With great respect to the Consumer  
19 Advocate's expert on this Section 8 of that agreement, in my  
20 view, was pre-imposed; and, I continue to believe that, as one  
21 of the people who negotiated that deal, Section 7 and 8 of  
22 that deal, overarched the entire deal.

23 MR. HEMPLING: Was your top-notch lawyer  
24 Mr. Williams involved in paragraph 8?

25 MR. ALM: I don't know whether Mr. Williams looked

1 at paragraph 8 --

2 MR. HEMPLING: Oh, okay.

3 MR. ALM: -- at the time or not.

4 MR. HEMPLING: Okay. Just curious.

5 MR. WILLIAMS: For the record, I was not the  
6 counsel with respect to the CT-1 docket.

7 MR. HEMPLING: It would be unfair for someone  
8 listening to this conversation to say that the Company went  
9 and spent \$193 million on a plant without knowing whether we  
10 ever had the necessary supply to make the plant work, correct,  
11 that would be an unfair inference from this conversation?

12 MR. ALM: Yes.

13 MR. HEMPLING: What were you planning to do with  
14 the plant if the biofuel supply didn't show you up?

15 MR. ALM: We believed the biofuel supply would be  
16 there.

17 MR. HEMPLING: So you saved \$193 million on the  
18 possibility of the biofuel showing up. Correct?

19 MR. ALM: Anything we billed is based on whether we  
20 can get a supply onto the islands and that, frankly, includes  
21 LSFO and petroleum. It was emerging --

22 MR. HEMPLING: I'm sorry, it includes what sir?

23 MR. ALM: That includes LSFO and petroleum which  
24 can be interrupted in supply too. We believed and there was  
25 evidence, significant evidence, in the marketplace that

1 biofuels would be available, including the use of ethanol in  
2 the unit, which continues to be well available all over the  
3 United States and overseas.

4 We chose in the end not to use ethanol, because it  
5 would have cut the megawatt outage of the output of the unit  
6 more than bio-diesel and was not, in our view, optimum, but  
7 there are biofuels available and have been throughout, if you  
8 include ethanol.

9 MR. HEMPLING: Okay. I'm going to ask you this  
10 next question as an executive, not as a lawyer; meaning, I  
11 don't expect you to give a legal answer, but do you understand  
12 the Company to have made a legal commitment to make the plant  
13 a biofuels plant?

14 MR. ALM: Yes.

15 MR. HEMPLING: So if it is not a biofuels plant,  
16 you would be in breach of a legal commitment?

17 MR. ALM: Yes.

18 MR. HEMPLING: And when you made that legal  
19 commitment, did the Company intend that it's recovery of the  
20 full CT-1 costs would depend on its finding a biofuels  
21 contract?

22 MR. ALM: The answer is yes. You know if -- with  
23 the addition, Mr. Hempling, I know you want short answers.

24 MR. HEMPLING: Go ahead, sir.

25 MR. ALM: Is that the unit was put in, described by

1 both us and in the Commission's final order, in a time of dire  
2 need. So if we came to that point and were unable to find  
3 biofuels, we might have come in to the Commission to have a  
4 discussion about whether, in fact, we wanted it to sit idle or  
5 whether, in fact, you wanted to consider using other fuel, but  
6 we never intended to get there; and, our agreement, our legal  
7 agreement, in that decision in order putting the stipulation  
8 in as a matter of law, is that we will biofuel our unit.

9 MR. HEMPLING: Thank you.

10 I'm glad Ms. Sekimura is here because this next of  
11 set of questions will go to both of you and it may vary  
12 between who deals with and part of this is to help my  
13 education.

14 Now so this relates to the AFDUC accrual issue and  
15 the gap in time between the ceasing of accruing AFDUC and the  
16 entry of the plant and to rate base; so, this may be a bit of  
17 an overlap from the other day.

18 To set the context, Ms. Sekimura, the Company had  
19 stopped accruing AFDUC?

20 MS. SEKIMURA: That's correct.

21 MR. HEMPLING: And what was the day of that ceasing  
22 of the accrual?

23 MS. SEKIMURA: August 3rd, 2009.

24 MR. HEMPLING: August 3rd.

25 That was a Company decision to cease the accrual of

1 AFDUC, Ms. Sekimura?

2 MS. SEKIMURA: The AFDUC was stopped when the plant  
3 was determined to be in-service.

4 MR. HEMPLING: Okay. Can I ask you not to use a  
5 passive voice on this particular matter.

6 Who stopped it and who determined that the plant  
7 was in-service? Who?

8 MS. SEKIMURA: The Company representative from the  
9 power supply area made that determination that it was  
10 in-service.

11 MR. HEMPLING: And then it became your job, upon  
12 receiving that information, to do what?

13 MS. SEKIMURA: To stop AFDUC.

14 MR. HEMPLING: Okay. And, again, this is from my  
15 understanding, and there was a rule that required you to take  
16 that action; is that correct?

17 MS. SEKIMURA: That's correct.

18 MR. HEMPLING: And what exactly is that rule?

19 MS. SEKIMURA: When the particular asset is  
20 available for service, serving our customers, the used or  
21 useful standard.

22 MR. HEMPLING: Okay. I need to understand this  
23 better. If you need to converse, you can do that for a minute  
24 or.

25 MS. SEKIMURA: And --

1 (Whereupon, Mr. Alm briefly confers with  
2 Ms. Sekimura.)

3 MR. HEMPLING: Good ahead, ma'am.

4 MS. SEKIMURA: Are you asking for the accounting  
5 standard or the legal standard?

6 MR. HEMPLING: Yes, ma'am, I was coming around to  
7 that, but let me maybe give you a context for why I'm asking  
8 this and then you can help with the answers.

9 I want to understand where discretion was exercised  
10 by the Company. It sounds like there were two decision  
11 points. One decision point was the decision where the plant  
12 was "in-service," the second decision was the decision whether  
13 to cease booking AFDUC, those were two distinct decisions.  
14 Correct?

15 MS. SEKIMURA: That's correct.

16 MR. HEMPLING: And I want to understand the extent  
17 of discretion associated with each of those decisions.

18 Do you follow me?

19 MS. SEKIMURA: Yes.

20 MR. HEMPLING: Okay. So your understanding is that  
21 with respect to --

22 MS. SEKIMURA: That's correct.

23 MR. HEMPLING: -- Mr. Simmons' decision  
24 communicated to you that the plant was in-service or that was  
25 his discretionary decision?

1 MS. SEKIMURA: Mr. Simmons provided information  
2 regarding plant and service of the used and useful; and, at  
3 that point in time, communicated that information to the  
4 accounting department at which time we stopped AFDUC on the  
5 project.

6 MR. HEMPLING: Okay. And your decision to stop  
7 AFDUC on the project is a decision that's commanded by a  
8 certain accounting principle or accounting rule; is that  
9 correct?

10 MS. SEKIMURA: That's correct.

11 MR. HEMPLING: Could you explain what that rule  
12 was?

13 MS. SEKIMURA: The rule for the accounting standard  
14 is related to the used or useful standard.

15 MR. HEMPLING: So what's the rule?

16 Is there a name associated with it?

17 Is it GAAP, G-A-A-P?

18 Where is the rule?

19 MR. WILLIAMS: Mr. Chairman, again, Ms. Nanbu is  
20 the controller of the Company. She was the witness on this  
21 subject. The question was listed under the CT-1 panel. She  
22 would have been the witness on that subject. She's not here  
23 this morning because she's taking Ms. Sekimura's place in the  
24 audit committee this morning.

25 The fact is there's an accounting instruction under



1 plant and service that the Company follows once you have a  
2 determination that the facility is connected to the grid and  
3 providing -- capable of providing services.

4 MR. HEMPLING: She can continue with the answers.

5 Your understanding, Ms. Sekimura, is that there was  
6 no discretion available to you in the decision to cease  
7 booking AFDUC. Correct?

8 MS. SEKIMURA: That's correct. Once Mr. Simmons  
9 provided that information, AFDUC was stopped.

10 MR. HEMPLING: Because you felt you had no  
11 discretion to do otherwise?

12 MS. SEKIMURA: That's correct. We were ever  
13 following the accounting rules.

14 MR. HEMPLING: Again, with apologies for going over  
15 something we had gone over before.

16 So, as I understand it, given the decision to cease  
17 accruing AFDUC, every day that goes by without the Commission  
18 granting approval to put the plant and rate base is a day in  
19 which the Company permanently foregoes return on its  
20 investment; is that correct?

21 MS. SEKIMURA: That's correct.

22 MR. HEMPLING: Is there any way out of that box as  
23 far as you know?

24 Would one way, for example, be for Mr. Simmons to  
25 reconsider his judgment about used and usefulness of the

1 plant?

2 Is that a possibility? Do you know?

3 MS. SEKIMURA: That's a possibility and at which  
4 time we would continue to accrue AFDUC on those costs.

5 MR. HEMPLING: Okay. So if I understand it right,  
6 Ms. Sekimura, the discretion in this area lies not with you,  
7 if there is any discretion, it lies not with you, it lies with  
8 the people in charge -- it applies with Mr. Simmons' area,  
9 Ms. Sekimura?

10 Can she give her answer first, please?

11 MS. SEKIMURA: Well, Mr. Simmons would provide us  
12 information about the operations of the plant.

13 MR. HEMPLING: Okay. Let's get practical.

14 Just suppose that the Commission -- and this is  
15 strictly hypothetical -- wants you, the Company, to have  
16 return on its investment.

17 Do you have that so far?

18 MS. SEKIMURA: Yes.

19 MR. HEMPLING: And let's take, as a reality, that  
20 it takes a while for the Commission to turn out decisions  
21 around here.

22 Do you understand that reality?

23 MS. SEKIMURA: Yes.

24 MR. HEMPLING: Okay. So because of somebody's  
25 discretionary decision, the Company is permanently foregoing a

1 return every day that goes by.

2 Do you see any way out of that box from your  
3 expertise as a financial person?

4 MR. WILLIAMS: Mr. Hempling, I would object to the  
5 question on the grounds that these decisions are described as  
6 discretionary on the part of the Company. There's a set of  
7 facts and circumstances under which the accounting rules  
8 apply. The Company doesn't have the option to choose or not  
9 choose whether to continue AFDUC. In fact, the matter was  
10 discussed with the Consumer Advocate. I think the Consumer  
11 Advocate stated strongly that it would oppose the continuation  
12 of AFDUC on this facility.

13 I'm not understanding the term "discretionary" in  
14 this context. There have been prior decisions of this  
15 Commission that has said you should not continue the AFDUC.  
16 You have to fund the portion of -- you have to forego  
17 collecting a return on that AFDUC, if you would accrual it,  
18 and it's a writeoff.

19 The Company strictly follows those dictates in  
20 trying to comply with the accounting mandates. I don't  
21 understand this terminology that this is a discretionary  
22 determination.

23 MR. HEMPLING: I wish you would have said that  
24 before your witnesses accepted the terminology, but let's go  
25 back for a second, please.

1 MR. WILLIAMS: And I think the witness did accept  
2 the terminology, Mr. --

3 MR. HEMPLING: Well, let's go back to the witnesses  
4 and thank you, Mr. Williams.

5 We're talking about Mr. Simmons' discretion,  
6 Mr. Alm.

7 Anything to add?

8 We're not talking about Ms. Sekimura's discretion.

9 Mr. Alm?

10 MR. ALM: Mr. Simmons is the one who declares,  
11 based on the fact that the unit is connected into the grid and  
12 providing electricity to the grid that it's in-service. I  
13 don't -- I, mean you can say it's discretionary. I mean, he's  
14 the one that's actually sitting there, and decides, based on  
15 what he's seen in front of him, the power is now flowing into  
16 the grid; and, under our rules, is now in-service.

17 And once he declares that, I think if you came  
18 along a month or two later and said, Well, I made a mistake,  
19 it wasn't in-service, we would be open to some extraordinarily  
20 serious questions about, you know, what -- you know, what  
21 we're doing, because it did provide electricity into the grid.  
22 It did meet the standard and we don't -- this is not an area  
23 we can play games in or Tom can come back.

24 I mean, I suppose there's a possibility the  
25 Commission could tell us that we declare it used and useful

1     ass of x day and allow the Company to recover AFDUC up until  
2     that date, or something like that, and put the Commission's  
3     order over it and, you know, I don't think we've talked about  
4     that, but, you know, there may be some other way to do that.

5             MR. HEMPLING: Yeah. Let's --

6             MR. ALM: But, from our point of view, our actions  
7     are controlled by a set of facts, you know, so there are two  
8     decision points but the second one is, frankly, automatic one  
9     -- excuse me -- once the first one is made, I don't think it  
10    can be retracted.

11            MR. HEMPLING: Yeah, maybe we're taking longer to  
12    go over this than we need to or maybe we're misunderstanding  
13    the purpose here. This is not the oppositional part of the  
14    conversation.

15            There's a box here that we're in Mr. Alm. The box  
16    consists of the Company not being able to recover a return  
17    permanently foregoing it because of a gap in time between two  
18    decisions, whether you want to call it discretionary or  
19    nondiscretionary, in the Commission's order in this case.  
20    Correct?

21            MR. ALM: Correct.

22            MR. HEMPLING: Okay. So let's be creative, which  
23    is what this is about.

24            Everybody ready to smile?

25            Okay. Now what was this last idea you just had,

1 Mr. Alm?

2 You're referring to a possible subsequent decision,  
3 you're referring to a decision that the Commission issues at  
4 some point when it does the rate case order that would say  
5 what, is that what you're referring to?

6 Are you referring to an immediate decision?

7 MR. ALM: Assuming that the Commission decided that  
8 it would like to have us have a full recovery here, there may  
9 be some possibility of giving us some right to recover costs  
10 in the period between the time it went into service and the  
11 time of the Commission's decision, and what form that could  
12 take, smarter people than me need to figure but, you know, it  
13 could be looked for some way to characterize those funds, yes.

14 MR. HEMPLING: All right.

15 MR. ALM: Or could the Commission decide that at  
16 the time of the interim order that it had not received  
17 sufficient proof that it was, a, in-service; and, b, that we  
18 had a supply of biofuels ready and available for the Company;  
19 but, subsequent evidence has demonstrated both and therefor  
20 the Commission is willing to go along with that portion of the  
21 Settlement Agreement is another way?

22 MR. HEMPLING: Okay. Here's a third way that is a  
23 problematic. Let me ask you to comment on it.

24 Suppose, hypothetically, absolutely suppose, nobody  
25 run to their cellphones, that the Commission says for purposes

1 of State law and the used or useful standard under State law  
2 this plant is not used and useful until there is a biofuel  
3 supply of sufficient quantity to allow the plant to operate  
4 reliably as a firm peaking plant.

5 Let's assume for a moment that that is the  
6 Commission's decision. Let's also assume the facts as they  
7 exist right now. Mr. Simmons' decision and Ms. Sekimura's  
8 applications at the AFDUC, under that hypothetical is there  
9 any solution to the Company's problem right now which is a  
10 daily permanent foregoing of return; and, by the way, if today  
11 is not the day to answer it, it can be something you put into  
12 the briefs.

13 MR. ALM: Subject to not be being an accountant --

14 MR. HEMPLING: That's two of us.

15 MR. ALM: -- you know, that kind of formulation  
16 will be worth looking at.

17 MR. HEMPLING: Wait a minute. I didn't give you a  
18 formulation. I stated the problem without formulation. I  
19 want you to solve it.

20 MR. ALM: No, your formulation of some kind of  
21 method of restarting or starting back the AFDUC clock or some  
22 similar clock to get a recovery until the time of biofueling,  
23 you know, we talked about it, but that idea would, in theory,  
24 make us whole.

25 MR. HEMPLING: Well, I think all I'm going to say

1 for now is that it's going to be helpful to the Commission in  
2 its decision-making to have an array of options that are  
3 calibrated to an array of possible decisions; one, of which  
4 could be that the plant is not used or useful per under Hawaii  
5 statutes until it has a biofuel supply of sufficient quantity  
6 to allow the plant to operate reliably as a firm peaking  
7 plant. That is one. I don't know where it stands in the  
8 probabilities, but it is one hypothetical.

9 Do you understand that one?

10 MR. ALM: Yes.

11 MR. HEMPLING: And it may be that the Commission  
12 didn't intend for the Company to suffer a permanent foregoing  
13 of AFDUC during the interim period just because the condition  
14 used and usefulness on a biofuel supply, if that's a  
15 possibility.

16 Do you understand, sir?

17 MR. ALM: Yes, I, do.

18 MR. HEMPLING: Thank you.

19 MR. WILLIAMS: Mr. Chairman, can I briefly add to  
20 that discussion since I was asked these questions the other  
21 day on the question of used or usefulness, just briefly, what  
22 those options are.

23 CHAIRMAN CALIBOSO: Go ahead.

24 MR. WILLIAMS: Because we certainly thought about  
25 options.



1           I think, basically, what's being suggested as if  
2   you look at the attributes of the unit and you -- there are  
3   various attributes of unit. One is its ability to provide  
4   power to the grid in an emergency, its ability to operate as a  
5   peaking unit with a full-time supply of biofuel. Another  
6   attribute actually was the availability of Black Star  
7   Generation in the case of an outage. We actually had  
8   discussion about -- okay, it doesn't have a Black Star unit  
9   yet. Do we get to continue the AFDUC on the generating  
10   component? The answer is no.

11           Under the accounting instructions, clearly we have  
12   to stop AFDUC because under general regulatory policy, once it  
13   has attributes where it can provide service to customers,  
14   which this unit has, we have to stop AFDUC. That's not a  
15   decision the Company comes likely to because it ceases to earn  
16   not only its return on equity on this unit but also  
17   shareholders are paying the debt costs on the unit at that  
18   point in time.

19           So what's being suggested, though, okay, if it  
20   had -- if the Commission were to make that determination that  
21   it doesn't have enough attributes to be deemed used and useful  
22   until such time there is a full-time supply of biofuel, what  
23   are the alternatives. Well, basically, the Commission at that  
24   point is telling us that -- I think that we should be  
25   continuing AFDUC until that point in time in which we have the

1 biofuel.

2           The issue that then arises is that's in some time  
3 in early 2010, perhaps, which then becomes a data outside the  
4 test year. So can you then put the unit into the rate base  
5 through a step increase because that additional attribute was  
6 gained in 2010 instead of 2009.

7           Now we have had circumstances in a purchase power  
8 context where, because of circumstances, a purchase power unit  
9 was actually delayed until outside a test year. This is the  
10 1990 test year rate case for HECO in the case of Kalaeola.

11           The Consumer Advocate, at that time, was actually  
12 was the one that suggested that we would have a step increase  
13 in May, in 1991, when that unit actually went into service as  
14 part of a 1990 test year, because it was much more efficient,  
15 from a regulatory standpoint, not to have to have a follow-on  
16 test year since we were going to have another test year in  
17 1992 for the AES unit that then came online where we also had  
18 a step increase in September of that year when that unit went  
19 into service.

20           So it is possible but those regulatory decisions or  
21 the Commission's and the Company needs guidance from the  
22 Commission as to whether those alternatives are available; so,  
23 there is an alternative that's available, and that would be to  
24 continue AFDUC to that point in time if -- and then to put it  
25 into service through a step increase, at that point in time,

1 if the Commission were to determine that we took too long to  
2 acquire biofuel, then I think the question would be an issue  
3 of whether we were entitled to include all of the AFDUC and  
4 rate base of the additional AFDUC in rebates; but, that would  
5 be an issue, at that point in time, and that could actually be  
6 a separate subsequent hearing on the steps taken by the  
7 Company to acquire the biofuel; although, there's much  
8 evidence already that we're in the process of acquiring the  
9 biofuel.

10 In any event, those are the steps that would be  
11 required for that particular option, I believe. And there's  
12 an intermediate one where the Commission could say we deem  
13 biofueling to be an important attribute in order to determine  
14 that it's used and useful but that we are satisfied from the  
15 steps the Company has taken to date that it is serious and  
16 will have biofuel here.

17 CHAIRMAN CALIBOSO: Thank you. I think that's the  
18 type of options that Mr. Hempling was referring to.

19 MR. HEMPLING: Mr. Alm, do you have an  
20 understanding of what would help the Company with respect to  
21 Commission decision-making at this point, based on the prior  
22 dialogue?

23 I'm not asking you to restate it.

24 Do you have a general understanding in which you'd  
25 have to go back and think about?

1 MR. ALM: Yes.

2 MR. HEMPLING: Is there a pattern here, Mr. Alm,  
3 where the Company makes decisions that boxes itself in to  
4 situations that put an economic risks and then comes to a  
5 hearing and then some other options that maybe create more  
6 flexibility for everybody to rise?

7 Is that a pattern or is that just unique to this  
8 CT-1 biofuel situation do you think?

9 MR. ALM: Even aside the characterization of boxing  
10 us in, do I think the CT-1 situation has had some interesting  
11 unique features, yes, I do.

12 MR. HEMPLING: Do you see how thinking flexibly  
13 about the situation can be a better approach for the Company  
14 then coming to the Commission with a single option and asking  
15 them to take it or leave it?

16 MR. ALM: I think giving the Commission options in  
17 a tough place is always a good idea..

18 MR. HEMPLING: Let's talk about rate design,  
19 Mr. Alm.

20 Is anybody in the Company responsible for  
21 determining informing management about the state of the art in  
22 time-of-use rates?

23 MR. ALM: Can you repeat that? Does anyone?

24 MR. HEMPLING: Is anyone in the Company responsible  
25 for studying and reporting to management on the state of the

1 art in designing time-of-use rates?

2 MR. ALM: That would primarily be Mr. Hee's area  
3 and up until the last few months, Dave Waller, for many years,  
4 was the leader in the area within the Company.

5 MR. HEMPLING: Are you aware of whether Mr. Hee is  
6 conscious of what the state of the art is in time-of-use  
7 ratemaking?

8 MR. ALM: I believe Alan -- also Mr. Young, I  
9 believe, that he is familiar --

10 MR. HEMPLING: Is this within --

11 MR. ALM: -- with --

12 MR. HEMPLING: I'm sorry, go ahead, sir.

13 MR. ALM: -- time-of-use ratemaking. Yeah.

14 MR. HEMPLING: Hierarchically, are these gentlemen  
15 under your domain in the Company?

16 MR. ALM: At this point, Mr. Hee is and Mr. Young  
17 is. Mr. Waller now reports directly to the CEO with a  
18 different set of responsibility.

19 MR. HEMPLING: Have you given anybody in the  
20 Company instructions as to the extent to which they should  
21 study the state of the art in time-of-use rates?

22 Have you given anybody instructions?

23 MR. ALM: Yes.

24 MR. HEMPLING: And what were those instructions,  
25 sir?

1 MR. ALM: Within the larger scope of what we're  
2 calling "demand response load management" that we need to find  
3 out what the best thinking is nationwide and which of those  
4 solutions would best apply to Hawaii.

5 MR. HEMPLING: Do you feel that what the Company  
6 has proposed in this case with respect to time-of-use rates  
7 satisfies the standard that you just described?

8 MR. ALM: I would suspect not but I don't know  
9 that. Now I think this is an evolving area nationwide and  
10 that we've got growing knowledge in this whole area and that  
11 we need to look at what the best of the best thinking is out  
12 there and look at continued ways to improve the entire load to  
13 manage a response to fuel.

14 MR. HEMPLING: Right. But do you think that the  
15 proposal that the Company made in this case reaches the  
16 standard that you've just described?

17 MR. ALM: What I said, Mr. Hempling, is we're  
18 studying it; so, without knowing the outcome of the study, I  
19 don't know how to answer that question.

20 Could there be more than we proposed, yes. But do  
21 I know the outcome of that study, no, I don't.

22 MR. HEMPLING: Is the AMI area, Advanced Meter and  
23 Infrastructure, also within your domain in the Company?

24 MR. ALM: Yes, it is.

25 MR. HEMPLING: What's the nature of the interaction

1 in the Company between the people that are studying the  
2 Advanced Meter Infrastructure and the people that are working  
3 on rate design?

4 What's the nature of the interaction?

5 MR. ALM: I think, at this point, it's very strong.  
6 I think historically it has not been; but, I think, at this  
7 point, they're in good communications.

8 MR. HEMPLING: Could you describe the interaction  
9 without adjectives like "strong" and good" and just describe  
10 it factually the best you can, please?

11 MR. ALM: Okay. I believe, at this point, they're  
12 in regular communications.

13 MR. HEMPLING: Is that the extent of your knowledge  
14 about the interaction?

15 MR. ALM: I'm not sure what you're looking for.  
16 I'm aware that they have had meetings. I'm aware that we have  
17 had discussions that range across smart grid, AMI, CIS  
18 ratemaking options to try to determine the best set of options  
19 to offer to our customers in our system, that that involves  
20 face-to-face meetings and other discussions in the Company  
21 about how best to go forward, coordinating all of the  
22 different pieces that are ultimately involved in areas like  
23 demand response/load management. You know, I can't give you  
24 dates or meetings. You know, I can't -- I don't know what  
25 you're looking for.

1 MR. HEMPLING: What are you looking for?

2 MR. ALM: I'm looking for us to find the best ways,  
3 as a Company, to make use of emerging technology to improve  
4 the grid to deliver better options to our customers and to be  
5 able to use this side of our resources to also significantly  
6 help with the renewable energy additions onto our system. I'm  
7 looking for it to be coordinated and I'm looking for it to be  
8 the very best we can make it.

9 MR. HEMPLING: Did you think the people in your  
10 Company responsible for these areas are overworked right now?

11 MR. ALM: I think they are scrambling hard, in  
12 part, because of things like the ARA hitting.

13 MR. HEMPLING: Sir?

14 MR. ALM: The ARA, the government money that's  
15 available, we have made a commitment to the Commission and to  
16 others that we will seek to make use of every opportunity to  
17 get federal funding and to get assistance in experimenting  
18 carrying on these activities; so, they're both trying to do  
19 the underlying work, but they're also trying to figure out in  
20 grants and in cooperative work with others, how to do this in  
21 both an effective manner, but also where we can to save  
22 ratepayer money; so, I think they're working hard, very hard.

23 MR. HEMPLING: I asked you if you thought they were  
24 overworked to an extent that prevents them from reaching the  
25 standard that you describes in terms of finding state of the



1 art and bringing it to Hawaii, are they overworked?

2 MR. ALM: To the point where they're not capable of  
3 doing their jobs, no. Are people overworked a lot of days,  
4 sure.

5 MR. HEMPLING: Thank you.

6 You and I had a discussion the other day about the  
7 employee discount, the rate Schedule E.

8 Do you recall that?

9 MR. ALM: Yes.

10 MR. HEMPLING: In that discussion, did you argue in  
11 favor of the discount?

12 MR. ALM: It has been a long standing part of our  
13 compensation package and I asked that the Commission continue  
14 to let us have it.

15 MR. HEMPLING: That's your memory of the  
16 conversation you and I had, that you asked the Commission to  
17 continue it?

18 MR. ALM: I said -- well, yes.

19 MR. HEMPLING: Because your president wrote a  
20 letter to the retirees on July 1st, 2009, saying, "I assure  
21 you we will work hard in further written testimony and at the  
22 evidentiary hearing to convince the Commission to reinstate  
23 it."

24 Are you aware of that letter?

25 MR. ALM: Yes, I am.

1 MR. HEMPLING: Is that what you think you did when  
2 you came to the Commission this week in your conversation with  
3 the Commission?

4 MR. ALM: I don't know what you've looking from me,  
5 Mr. Hempling. I think I asked the Commission to continue a  
6 long-standing benefit to the employees and retirees of the  
7 Company. I think I've also tried to indicate some sensitivity  
8 to the issue that we're in very challenging times and lots of  
9 people are facing hardships and that we, as a Company, need to  
10 be recognized of that as well.

11 MR. HEMPLING: Did you advise the president at the  
12 Company with respect to how he should communicate to the  
13 employees and the retirees on this subject of the employee  
14 discount?

15 Did you advise the president?

16 MR. ALM: I believe I saw a copy of that letter in  
17 draft.

18 MR. HEMPLING: You don't think it would have been  
19 better for the president of the Company to say we're in a  
20 different era now. We all have to pull in our belts. We have  
21 to use less electricity. We have to find a way to reduce the  
22 island's dependence on imported oil; and, so the era of this  
23 particular discount is over. We will do our best to make your  
24 compensation equivalent, but we have to give this discount a  
25 goodbye.

1 Don't you think that would have been a better piece  
2 of advice for you to give to the president of the Company in  
3 light of all of your involvement in various HCEI matters, sir?

4 MR. ALM: I would have preferred that we would have  
5 done that in a prospective basis at the end of the current  
6 Collective Bargaining Agreement and had an opportunity to  
7 readjust compensation or considerably adjusting that  
8 compensation at a later date than ceasing it right now and not  
9 having a conversation with --

10 MR. HEMPLING: But that's not the advice you gave  
11 to the president. Correct?

12 MR. ALM: Again, I'm not sure what you're looking  
13 for here. I saw a draft of the letter. I believe I said that  
14 I would agree that we should try to preserve the discount in  
15 this rate case.

16 MR. HEMPLING: Do you think it's important for the  
17 employees of the Company to respect the Commission?

18 MR. ALM: Absolutely.

19 MR. HEMPLING: Do you think a letter like this has  
20 that effect as opposed to a letter of the type that I  
21 described?

22 Which one would you think would cause more respect  
23 among the employees before the Commission?

24 MR. ALM: I think the second letter really  
25 doesn't -- I'm not sure what you're looking for, but the first

1 letter, in our view, described the fact of the removal of  
2 Schedule E. The second letter you're talking about would have  
3 said that, you know, we should give this up. We should give  
4 this up. I'm struggling a little bit with what you're looking  
5 for.

6 MR. HEMPLING: Now the second -- I'll describe it  
7 again to you, sir.

8 The second letter would have said to the employees,  
9 We will do our best to make your compensation reflective of  
10 the benefit you would have had under the employee discount,  
11 but the days of the employee discount need to end because of  
12 the higher priorities in the island for reducing fossil fuel  
13 dependency.

14 Do you think that type of letter, the one that I've  
15 described, would have caused everybody's interest to converge  
16 better than the one that the president sent, the one that you  
17 did not object to?

18 MR. ALM: I'm not really sure how to answer that  
19 question.

20 MR. HEMPLING: Thank you. Excuse me a second.

21 (Whereupon, Mr. Hempling briefly confers with the  
22 Commission.)

23 CHAIRMAN CALIBOSO: Mr. Hempling is finished with  
24 this particular line, but we're going to open it up to the  
25 Commission's questions, if anything.

1 COMMISSIONER KONDO: Ms. Sekimura, I just have one  
2 question about your discussion with Mr. Hempling about the  
3 AFDUC.

4 Is there a difference between the regulatory books,  
5 the regulatory requirements versus the other books that you  
6 keep for purposes of tax or the other set of books as to when  
7 you record AFDUC?

8 MS. SEKIMURA: There is no difference.

9 COMMISSIONER KONDO: Thank you.

10 CHAIRMAN CALIBOSO: Why don't we take our morning  
11 break a little early and let's reconvene at 10:20.

12 We're in recess.

13 (Whereupon, at 10:03 a.m., a recess was taken, and  
14 the proceedings resumed at 10:21 a.m., this same day.)

15 CHAIRMAN CALIBOSO: Good morning, again.

16 This hearing is reconvened and we're continuing  
17 with this Audit Management panel.

18 Mr. Hempling, you may proceed when you're ready.

19 MR. HEMPLING: Thank you, Mr. Chairman.

20 Mr. Brosch, good morning.

21 MR. BROSCH: Good morning, Mr. Hempling.

22 MR. HEMPLING: You're familiar with that's been  
23 labeled as Hearing Exhibit CA-4?

24 MR. BROSCH: Yes, I am.

25 MR. HEMPLING: I'd like to, as succinctly as you

1 and I can, I'd like to get from you your thoughts about each  
2 of these items here recognizing that you and the CA can file  
3 briefs that provide more detail. What we'll try to do is  
4 scope out as much thoughtfulness as we can in each of these  
5 areas --

6 MR. BROSCH: Okay.

7 MR. ALM: -- okay?

8 And, by the way, do you mind if we use the term  
9 "performance review" instead of audit?

10 MR. BROSCH: That's fine. We should probably  
11 discuss what exactly that means; but, yes.

12 MR. HEMPLING: Well, let's look at your first item  
13 here under regulatory audits, focused regulatory audits. The  
14 first is the CT-1 construction cost reasonableness.

15 Do you see that?

16 MR. BROSCH: Yes, I do.

17 MR. HEMPLING: Well, that's an issue in this case  
18 if the Commission has to decide in terms of the number of  
19 dollars to go into rate base.

20 Are you talking about doing this order prior to the  
21 order in this case or are you talking about doing it after the  
22 Commission has already granted a certain amount of dollars?

23 MR. BROSCH: My thought was this, that we have  
24 agreement with the Company regarding how to account for CT-1  
25 for purposes of this case that does not reflect either the

1 full annual costs or the ultimate construction costs that  
2 exceeded original estimates, such that the Commission could  
3 conclude the issue for purposes of this case leaving HECO to  
4 seek recovery of the rest of the money either in the RAM  
5 proceeding, if it were approved, or in a next formal rate  
6 case, if RAM were not approved.

7 In any event, the intervening time might create an  
8 opportunity for a more focused analysis of the ultimate costs  
9 of CT-1 culminating in some very specific recommendations  
10 regarding how much of that ultimate costs should be  
11 permanently accounted for in rate base and how much, if any,  
12 should be written down on the Company's books prospectively.

13 MR. HEMPLING: All right. This is an important  
14 clarification you're bringing here, Mr. Brosch, and all these  
15 questions right now I'm asking, In your position, as an expert  
16 analyst, not in your position as representative of the CA's  
17 office, so try to answer all the questions in terms of your  
18 own professional view.

19 Is it your own professional view -- excuse me.

20 Do you have a professional view right now as to  
21 where all \$193 million should be included in rate base or do  
22 you need to do more study to have a review on that?

23 MR. BROSCHE: I have not studied the actual final  
24 costs of construction or formulated any opinion as to whether  
25 some of those costs should be disallowed for ratemaking

1 purposes.

2 MR. HEMPLING: So if the Commission were to decide  
3 to accept the concept in the proposed -- in the Company's  
4 current proposal, which is the average rate base followed by  
5 recovery of the remaining half of CT-1 through the RAM, then  
6 that's the point in time at which were you employed by the CA  
7 you would examine whether to have that increment included in  
8 rates; is that correct?

9 MR. BROSCHE: Yes; and, even at that time, it's my  
10 understanding that the RAM would eliminate recoverability to  
11 the preapproved Commission cost level; so, we're still not  
12 exposing ratepayers to the full 193 million even through RAM.

13 MR. HEMPLING: What's the issue in the East Oahu  
14 transmission costs?

15 Why is that on this list?

16 What's your concern?

17 MR. BROSCHE: It's on the list because I've come to  
18 understand, through discussions with the CA folks, who are  
19 close to this docket and the history of this matter, that  
20 there were considerable costs incurred by HECO to evaluate  
21 alternative routing and address issues of community concern  
22 with respect to the design and siting of this project.

23 My expectation is that this project will be  
24 complete perhaps in the next HECO rate filing; and, between  
25 now and then, there would be some benefit to the process if



1 any detailed analysis of those costs, including the  
2 preliminary survey costs that might not have been required  
3 technically for construction but resulted from that extensive  
4 process, could be critically reviewed and someone could  
5 address ultimate rate recoverability of those costs.

6 MR. HEMPLING: You know, Mr. Brosch, this Company's  
7 got a lot to do as it is and the Commission isn't likely to  
8 just order audits or performance reviews for the fun of it.

9 Is there something here about this project that's  
10 concerning you; or, it's just that's it costly, so you're  
11 recommending an audit?

12 MR. BROSCH: What's concerning me is that I  
13 understand there's been a great deal of controversy and  
14 potentially excessive costs incurred that will be a future  
15 regulatory issue of potential concern to the Commission; and,  
16 if a focused review were desired by the Commission, it may be  
17 difficult to muster the resources and get that done in a rate  
18 case.

19 MR. HEMPLING: I see. So one of your reasons for  
20 these focused regulatory audits is to create a space, a work  
21 space, for this type of investigation that's not cluttered by  
22 the multiple issues that show up in a rate case; is that  
23 right?

24 MR. BROSCH: That's true for many of these, yes,  
25 sir.

1 MR. HEMPLING: I didn't mean the word "cluttered"  
2 in the pejorative.

3 MR. BROSCHE: I understand the word, though.

4 MR. HEMPLING: I just couldn't come up with another  
5 word.

6 Is the answer the same then for the CIS project  
7 cost or is there something unique that you know about that  
8 project?

9 MR. BROSCHE: We did considerable discovery in this  
10 rate case anticipating a debate over how far of the currently  
11 accrued cost for that project could be recoverable; and, when  
12 it was further delayed and removed from the case, it became  
13 obvious that that was going to be a potentially contentious  
14 issue in the next rate case.

15 MR. HEMPLING: Why is it contentious?

16 Delays happens, overages happens. It's the nature  
17 of the beast.

18 What do you know about this project that makes you  
19 think there's a scent, S-C-E-N-T, of imprudence, if you know?

20 MR. BROSCHE: I do know that the Company retained --  
21 selected a vendor and invested considerable time and resources  
22 in pursuing the development of that software with a vendor that  
23 has since been dismissed and claims have been made and  
24 litigation is in process regarding the inability to complete  
25 the project with the primary vendor.

1 MR. HEMPLING: Did you ever hire a subcontractor,  
2 Mr. Brosch?

3 MR. BROSCH: I have.

4 MR. HEMPLING: You ever have disappointment with  
5 one of your subcontractors hires?

6 MR. BROSCH: Not of this magnitude, no.

7 (Laughter.)

8 MR. HEMPLING: Well, you got a small shop.  
9 Does that explain the difference in magnitude?

10 MR. BROSCH: Yes, it does.

11 MR. HEMPLING: In other words -- excuse me.

12 What's this productivity analysis about,  
13 productivity with respect to what?

14 MR. BROSCH: This is actually something that you  
15 asked me about in the decoupling docket where there was  
16 expressed concern over the deemed productivity offset to be  
17 used in the joint recommendation between the HECO companies  
18 and the Consumer Advocate.

19 The question was asked, Should we have a  
20 comprehensive Company-specific productivity analysis and I  
21 agreed with you that we should, and that's why it's on the  
22 list.

23 MR. HEMPLING: Right. But what are we looking at?  
24 What does "productivity" mean?

25 Electrons flow, dollars are paid, what do you mean

1 by "productivity"?

2 MR. BROSCHE: Well, in the context of decoupling,  
3 productivity is an accounting for improved methods of  
4 operation, improved management, the implementation of new  
5 technologies and systems that allow you to achieve more work  
6 and produce more output for a given level of input.

7 MR. HEMPLING: Well, is this a place where we  
8 study -- this "productivity" word that we used to study  
9 whether the Company has any idea how to design time-of-use  
10 rates consistent with the state of art, is that productivity  
11 or is that something else?

12 MR. BROSCHE: No, I wouldn't think of that as  
13 productivity. Here the very specific application of a  
14 productivity study is to produce a value that would be useful  
15 if there were a RAM in employing the productivity offset  
16 factor.

17 MR. HEMPLING: It's probably just me, but is what  
18 you looking to do with this productivity analysis is assessed  
19 whether the quantitative productivity factor is an appropriate  
20 factor or are you talking about the underlying productivity of  
21 the Company that precedes application as a factor?

22 MR. BROSCHE: What I had in mind is a study to be  
23 conducted that would quantify HECO productivity in terms of  
24 the dollar amounts of labor and nonlabor inputs required to  
25 produce a related quantification of output in economic terms.

1           The productivity factor is applied in the RAM to  
2   account for the fact that not only do we have inflationary  
3   impacts driving the Company's cost to provide service; but, we  
4   expect to have some offset to inflation in the form of gains  
5   in productivity through improved methods of operation, the  
6   implementation of new technologies, that sort of thing.

7           MR. HEMPLING: Is your answer any different with  
8   respect to the next item, effectiveness in meeting HCEI  
9   performance obligations?

10          MR. BROSCHE: Well, yes, it's different. This is a  
11   targeted deliverable, I guess, in the sense that within the  
12   decoupling joint recommendation between the Consumer Advocate  
13   and the HECO companies, we agreed that the HECO companies  
14   would provide evidence in the 2011 rate case of their  
15   achievements in terms of renewables and other goals in the  
16   HCEI agreement. Other parties in that docket you may recall  
17   were suggesting that there be performance measures and factors  
18   applied before any study of achievement or achievability.

19          So, again, this is a piece of work that, I believe,  
20   needs to be performed that would be useful in an anticipated  
21   future rate proceeding creating a space, creating perhaps a  
22   source of resources to anticipate the need and deal with it  
23   sooner rather than later and avoid what you call "clutter" in  
24   a rate case.

25          MR. HEMPLING: The next four items that are next

1 listed, the ECAC, PPAC, the IRP/DSM, and the RBA/RAM, you  
2 described those as financial attest audits. Correct.

3 MR. BROSCH: Yes, I do.

4 MR. HEMPLING: And that's a different kind of  
5 audit, we're looking there for accuracy as opposed to  
6 performance; is that correct?

7 MR. BROSCH: Accuracy and compliance with the  
8 prescribed rules, yes.

9 MR. HEMPLING: What do you --

10 MR. BROSCH: And --

11 MR. HEMPLING: -- mean -- sorry, go ahead.

12 MR. BROSCH: -- I would distinguish that from --  
13 let me say it different. Let me start over.

14 If in that review it became obvious that there were  
15 concerns about interpretation or apparent problems with  
16 management performance, I would expect that you might elevate  
17 that to a separate study; but, primarily, what I had in mind  
18 here is a financially oriented reviewed tracing the filings  
19 the Commission receives periodically back into supporting  
20 documentation to confirm the accuracy of the numbers, the  
21 accuracy of the rate adjustments that flow from these devices  
22 in compliance with the stated rules, surfacing any issues of  
23 interpretation that may be surfaced by that work.

24 MR. HEMPLING: Are you involved in the CESP?

25 MR. BROSCH: I am not.

1 MR. HEMPLING: Let's talk about the processes for  
2 carrying out these performance reviews or these audits,  
3 Mr. Brosch.

4 Have you been involved in any such things before --

5 MR. BROSCH: I --

6 MR. HEMPLING: -- as an observer or as a staff  
7 person, as a client or as a consultant?

8 MR. BROSCH: Yes, probably, all of those at one  
9 time or another.

10 MR. HEMPLING: What's to prevent a situation where  
11 the Commission retains a huge generalist firm like a McKenzie  
12 and the first thing they learn when they come out here is that  
13 Hawaii is different, and electricity is different, and they're  
14 told that general management practices don't really have much  
15 connection here because you have to know a lot about the  
16 current situation?

17 What's to prevent a real waste of money and waste  
18 of the Company's executive's time on this?

19 How would this process work?

20 MR. BROSCH: I'm not recommending a generalist  
21 firm. I've intentionally used the word "focused" in my  
22 numbered item one and two out of concern for that very effect,  
23 where I've seen organizational effectiveness studies  
24 conducted, they tend to suffer from that effect of, you know,  
25 lack of familiarity with the local environment and

1 company-specific facts as well as the lack of a deliverable  
2 work product that really bears on the matters of importance to  
3 a regulator.

4 Said differently, the recommendations often come  
5 out saying there should be more viewer spans of control or  
6 layers of management, and the utility says we agree with  
7 these, we don't agree with those, we've already acted on this  
8 other set, and we're done. And you're left with a large bill  
9 and not much in practical results that can be implemented.

10 MR. HEMPLING: So what's the skillset that the  
11 Commission would be looking for, assuming the Commission were  
12 to manage this process, what's the skillset that the  
13 Commission should be looking for?

14 Is it a different skillset for each of these items?

15 MR. BROSCH: Probably, yes. That's why I think the  
16 first step is my 3(a) Project Scoping, where you need to very  
17 carefully define the problem and list all the questions you  
18 need answered and put that in your solicitation and then  
19 circulate it broadly to those you think may be qualified and  
20 let them tell you, in their proposal, their understanding of  
21 the problem and the tasks they proposed to go about answering  
22 those questions; and, that should reveal something about  
23 whether they do, in fact, understand the problem, whether they  
24 offer a cost effective path toward finding the answers, and  
25 then in the qualification section of that proposal, whether



1 they've done that sort of thing in the past with references to  
2 people that can tell you how well they did it.

3 MR. HEMPLING: Do you have any thoughts on the  
4 linkage between the outcomes of such a series of audits on the  
5 one hand and rate cases or RAM reviews on the other hand?

6 What I'm getting is, Do you think there should be a  
7 direct linkage that is lessons learned from the studies that  
8 you're recommending are then applied directly to cost recovery  
9 requests; or, do you see the outcomes of such audits being  
10 standalone items for the Commission then to order the  
11 Company's implementation of results or both or what?

12 MR. BROSCHE: Primarily, the former. And,  
13 certainly, in area one, the audit results that I envisioned  
14 would bring closure to the issues that are framed by the  
15 audit.

16 So, for example, the CT-1 construction cost  
17 reasonableness question would be answered hopefully in a  
18 well-developed and supported report that could be presented  
19 before the Commission with parties basing their advocacy on  
20 the report; or, if they didn't agree with the report, having  
21 the opportunity to go back over the basis for the conclusions  
22 reached to show the Commission why the auditor was wrong; and,  
23 at the end of the day, the utility benefits from closure with  
24 the Commission order based upon an extensive analysis that  
25 says the reasonable dollars to be recovered in this example

1 for CT-1 is X.

2 MR. HEMPLING: On CT-1 -- sorry to put you in a  
3 position now representing the Consumer Advocate, but is your  
4 understanding that the Consumer Advocate's position that with  
5 respect to CT-1 costs, the Consumer Advocate views, as  
6 prudent, for now -- excuse me -- that the Consumer Advocate  
7 views as prudent all of the dollars that would go into rates  
8 now but is reserving the opportunity to argue for disallowance  
9 for any of the dollars above that amount, is that the Consumer  
10 Advocate's interest?

11 And if Ms. Awakuni is a better person to answer,  
12 that would be fine.

13 MR. BROSCHE: I don't know the Consumer Advocate's  
14 position beyond a conclusion that the revenue requirement, in  
15 total, negotiated between the Consumer Advocate and the  
16 Company we believe is reasonable considering all the facts and  
17 compromises wrapped up in agreement.

18 MR. HEMPLING: Okay. So it would not be correct  
19 for the Commission to infer from that notion, that  
20 description, that the Consumer Advocacy specifically has a  
21 view that the dollars in rate base to go in to rate base with  
22 respect to the CT-1 are necessarily prudent?

23 MR. BROSCHE: I think that's correct; and, there's  
24 nothing in the Consumer Advocate's evidence to suggest that  
25 there should either be a specific dollar amount of CT-1

1 investment included in rates prospectively or alternatively  
2 any write down of the Company's recording costs based upon any  
3 evidence that we've presented.

4 MR. HEMPLING: Thank you.

5 Excuse me a moment, please.

6 (Whereupon, Mr. Hempling confers with the  
7 Commission.)

8 COMMISSIONER KONDO: Ms. Sekimura, can I ask you a  
9 question?

10 MS. SEKIMURA: Yes.

11 COMMISSIONER KONDO: And I think it was raised in  
12 my mind from a comment that Mr. Brosch had made about the RAM  
13 mechanism that has been proposed in the joint decoupling  
14 proposal where the total amount that can be recovered through  
15 the RAM is the approved amount of the project; so, for the  
16 CT-1 approved amount is 137-million-and-some change, assuming  
17 that the Company -- assuming the Commission and the Company  
18 are on the same page as to the recovery of CT-1 and assuming  
19 that the Company -- I'm sorry, the Commission approves the  
20 decoupling mechanism that has been proposed by the Company and  
21 the Consumer Advocate, how would the Company -- what is the  
22 Company's intent as to how they would recover the additional  
23 \$55 million?

24 MS. SEKIMURA: Well, one possibility would be to  
25 include those costs in rate base at the next opportunity of

1 the next rate case.

2 COMMISSIONER KONDO: So, basically, the Company  
3 would carry those costs until the next rate case in 2011, is  
4 that what I understood your answer to be?

5 MR. WILLIAMS: Commission Kondo, if I might --

6 COMMISSIONER KONDO: Sure.

7 MR. WILLIAMS: -- interject because Ms. Sekimura  
8 was a witness in the decoupling docket.

9 And when you talk about approved costs for the  
10 project if the Commission approved the 163-million estimate  
11 that we had presented in this rate case and then incorporate  
12 that in rates then the approved estimate becomes 163 million  
13 for purposes of the RAM, because there's a subsequent approval  
14 after the original GO7 approval.

15 COMMISSIONER KONDO: Is that your understanding,  
16 Mr. Brosch, as to how the RAM mechanism would work?

17 MR. BROSCHE: I've not focused on the approval word  
18 to the extent Mr. Williams apparently has. I suppose that's a  
19 scenario. I don't know that I have an opinion one way or the  
20 other. That might be a subject of future discussion.

21 COMMISSIONER KONDO: Well, at the time that  
22 Consumer Advocate entered into the Settlement Agreement  
23 with -- or with the Company with respect to the decoupling  
24 mechanism, what was the intent of the Consumer Advocate with  
25 respect to that version?

1 MR. BROSCH: That the rate recovery not exceed  
2 approved levels.

3 COMMISSIONER KONDO: And without a definition as to  
4 what approved is?

5 MR. BROSCH: Well, I think we all had an idea that  
6 it was a Commission order pointing to a number. I hadn't  
7 thought about it being a subsequent Commission order but  
8 clearly that's a stability, one that you control.

9 COMMISSIONER KONDO: Well, what you just said then  
10 at the time that the Consumer Advocate entered into that  
11 agreement related to decoupling, but what you just said, it's  
12 my understanding, that you expected the approved number to be  
13 from the initial CIP docket; is that correct?

14 MR. BROSCH: Well, that's what I was thinking about  
15 at the time. It hadn't occurred to me. What I'm trying to  
16 communicate is it hadn't occurred to me that there would be  
17 subsequent applications or request for an updated higher  
18 approval.

19 COMMISSIONER KONDO: No, I'm just trying to get an  
20 understanding as to what your understanding was at the time of  
21 the agreement.

22 MR. BROSCH: Sure. Let me say it this way. We  
23 understood that there would not be rate recovery of any dollar  
24 amounts exceeding Commission approved levels.

25 COMMISSIONER KONDO: All right. So thank you.

1 MR. WILLIAMS: And I would suggest that the  
2 original agreement between the Consumer Advocate and the  
3 Company and the proposal was to actually put in the actual  
4 costs through the RAM mechanism and then was a subsequent  
5 proposal by the Company to limit it to an approved amount and  
6 our understanding of what we meant by "approved."

7 So they had simply accepted what our downgrade of  
8 what it would go in and what we meant was if there was a  
9 subsequent approved amount that was higher, it would be that  
10 amount.

11 COMMISSIONER KONDO: Thank you, Mr. Williams.

12 MR. HEMPLING: Mr. Alm, I have a series of  
13 questions now about audits, and these are questions that are  
14 of a different nature than the ones that I've asked you early  
15 today, if I think straight and factual; and, so I'm going to  
16 try to go through them with you.

17 I'm referring to -- I don't know that you need take  
18 it out, but I'm referring to HECO ST-1103, which has a  
19 discussion about various audit processes.

20 Well, we can just -- well, why don't we see if he  
21 can do without it. I'm not sure that you'll need it.

22 MR. WILLIAMS: Yeah, I would. That is Ms. Nanbu's  
23 exhibit; is that correct?

24 MR. HEMPLING: Well, the exhibit relates to audits  
25 and this view on the panel and Mr. Alm is here; so, let's see

1     how well we can do here.

2                   You've had at the Company, as discussed in  
3     HECO T-11, an internal audit that is focused of Sarbanes Oxley  
4     requirements and also on IT; is that correct?

5                   MS. SEKIMURA: This is Tayne Sekimura.

6                   MR. HEMPLING: Yes, ma'am?

7                   MS. SEKIMURA: That's correct.

8                   MR. HEMPLING: And this was an internal audit using  
9     internal auditors, employees at the Company to carry out.  
10    Correct?

11                   MS. SEKIMURA: These two particular audits were  
12    co-sourced; in other words, internal audit employed the  
13    services of a third party to help perform those audits.

14                   MR. HEMPLING: Did the audits relating to IT  
15    examine the implementation of new IT products like the  
16    Ellipse 6 and the CIS?

17                   MS. SEKIMURA: The focus, as I understand of those  
18    audits, were to take a look at more generally how the IT  
19    corporate strategies were structured and the types of  
20    governance processes.

21                   MR. HEMPLING: So does that mean they did not focus  
22    on the examine implementation of new IT products such as  
23    Ellipse 6 in CIS?

24                   MS. SEKIMURA: I think it took a look at just more  
25    globally the governance surrounding the development of those

1 projects. I understand it also took a closer look at the  
2 project, the CIS project.

3 MR. HEMPLING: A closer look, closer in what  
4 respect?

5 MS. SEKIMURA: In terms of the project management.

6 MR. HEMPLING: Could you give any more detail than  
7 that?

8 MR. WILLIAMS: Mr. Chairman, we actually no way  
9 objected to providing that report we did in fact provided, I  
10 believe, is Attachment 9 to the response to PUC IR 171. If  
11 I'm looking at the right one, it says IT Strategy Governance  
12 and Project Review. It is produced under a protective order.

13 CHAIRMAN CALIBOSO: I guess we have to be careful  
14 probing that, Mr. Hempling.

15 MR. HEMPLING: I take it, Ms. Sekimura, whatever  
16 knowledge the Commission can gain about that would be bounded  
17 by what's in that document and wouldn't be enhanced by asking  
18 you further questions on this?

19 MS. SEKIMURA: That's correct.

20 MR. HEMPLING: Are you aware of any audits,  
21 Ms. Sekimura or Mr. Alm, that have examined overall employee  
22 head count in the Company?

23 MS. SEKIMURA: I'm not aware of such audit.

24 MR. HEMPLING: Have there been any management  
25 audits by third parties other than the one that you just



1 described to me a moment ago in terms of co-sourcing over say  
2 the last five years.

3 MS. SEKIMURA: It was provided in response to  
4 PUC IR 171. We do list some audits provided by third parties  
5 for Hawaiian Electric since 2005.

6 MR. HEMPLING: So that answer within 171 would  
7 constitute the full universe, as far as you know, of audits  
8 conducted by third parties?

9 MS. SEKIMURA: That's correct.

10 MR. WILLIAMS: Just so we're clear, there were some  
11 co-sourced audits that were also identified in either 190 or  
12 190.

13 MR. HEMPLING: There's a reference in ST-15, and I  
14 don't think you need to take it out, to the fact that a new  
15 manager was hired on September 2nd, 2008, with the focus on  
16 expanding risk based auditing.

17 Do you know what "risk based auditing" is?

18 MS. SEKIMURA: Risk based auditing refers to a  
19 practice where risks of the Company are taking a look at in  
20 order to determine the types of audits that are necessary.

21 MR. HEMPLING: Well, what sorts of risk are you  
22 referring to?

23 MS. SEKIMURA: We take a look at risks in various  
24 areas in terms of operational risks, financial risks, and  
25 risks with complying with the rules and regulation.

1 MR. HEMPLING: This is my own ignorance, but is  
2 this risk based management concept a new idea in management?

3 I guess I'll just give you the second half of the  
4 question, because what you just described sounds, to me, no  
5 different from what reviewers and critiques normally  
6 accomplish.

7 What is familiar about this concept of risk based  
8 management? Do you know?

9 MS. SEKIMURA: In terms of its newness, I think  
10 companies always take a look at their environment under which  
11 they operate and taking a look across the enterprise looking  
12 at the various subject matters that provide threats to the  
13 Company; and, in order to develop good strategic plans,  
14 companies have to be -- have to understand what their threats  
15 are.

16 MR. HEMPLING: Well, this isn't a new idea. That's  
17 what any company that wants to thrive does. Correct?

18 MS. SEKIMURA: That's correct.

19 MR. HEMPLING: Are there any plans in the Company  
20 right now, Mr. Alm, to have an independent investigation of  
21 the costs associated with the CT-1 unit?

22 MR. ALM: Discussion is more to have a review of  
23 how we do capital project costing and estimation which would  
24 presumably use CT-1 as Exhibit A; but, the goal is to find a  
25 way to provide far better estimates for both internal

1 decision-making as well as obviously for use by the Commission  
2 and Consumer Advocate; and, depending on their interest, the  
3 Department of Defense, in particular, projects, but I think  
4 it's less than it would be simply retrospective than the goal  
5 would be to prospectively produce better results but use CT-1  
6 as a significant test case process.

7 MR. HEMPLING: To fine tune my question, though,  
8 and to get as clear an answer as I can, with respect to  
9 determining why did this thing cost \$193 million as opposed to  
10 some other figure, there is no plan at present in the Company  
11 to conduct such an investigation?

12 MR. ALM: We have done our own internal look. I  
13 thought the question was bringing in an outside auditor to do  
14 it --

15 MR. HEMPLING: Sorry, that's correct.

16 MR. ALM: -- was to do the external review using it  
17 as an example for a prospective purposes rather than simply  
18 having them look retrospectively at it.

19 MR. HEMPLING: Okay. I'm trying to understand your  
20 answer, though.

21 Are you saying that the retrospective -- what we'll  
22 call the "retrospective critique" of the total costs is not  
23 going to be part of the study or is it going to be part of it  
24 but the study would have a broader purpose?

25 MR. ALM: I would think in the course of it that it

1 will make retrospective views of that. I think already  
2 internally we have examined and will continue to examine every  
3 dollar of those costs because, at some point, we do have to  
4 bring whatever gap is left.

5 Just, you know, going to Commissioner Kondo's  
6 earlier question, between whatever number is approved in the  
7 193 number, we're going to be back here, and we're going to be  
8 going through those line by line with you again, and we've got  
9 two other parties to this case presumably in the 2011 rate  
10 case.

11 MR. HEMPLING: If I were to ask you the same  
12 question with respect to the CIS project; that is, does the  
13 Company have any plan to have a third-party investigation of  
14 the CIS project costs, would your answer be the same?

15 MR. ALM: That's probably somewhat different.  
16 We'll be looking like at the cost of that throughout. The IT  
17 governance area, which is one of the key issues, was actually  
18 already looked at, and that was the discussion you had  
19 earlier, and we've already taken steps to improve and change  
20 IT governance based on the Pricewaterhouse Coopers audit that  
21 you've already mentioned and is already part of the filing;  
22 so, a portion of the CIS-related issues has already been  
23 looked at and has resulted in some changes in the Company;  
24 and, I would expect we would continue to have reviews of how  
25 the IT area in our Company runs, whether they would

1 specifically use the CIS project, you know, it's a big CIS  
2 project -- I mean, it's a big IT project, so I can't imagine  
3 any review of IT wouldn't touch on that; but, I think in the  
4 case of CT-1 and the issue of how we look at the engineering  
5 cost estimates and projects, that's a pretty straight shot,  
6 whether you order it as part of what we do or we do it on our  
7 own.

8 MR. HEMPLING: Concerning -- I think this may go to  
9 Ms. Sekimura -- the area of pension postretirement benefits  
10 and health insurance costs.

11 Has the Company engaged in any audits, third party  
12 or internal, of those costs?

13 MS. SEKIMURA: We had done an audit. We had  
14 engaged AON Consulting --

15 MR. HEMPLING: I'm sorry, engaged who?

16 MS. SEKIMURA: We had engaged AON Consulting --

17 MR. HEMPLING: Spell it please.

18 MS. SEKIMURA: A-O-N. -- to do an audit on our  
19 funding for our health benefits.

20 MR. HEMPLING: And what were the conclusions?

21 MS. SEKIMURA: The conclusions were to -- there's a  
22 list actually of conclusions that we came about and,  
23 basically, we concluded that we would keep the active employee  
24 group on combining the bargaining unit and the merit employees  
25 on a combined basis for purposes of determining loss history.

1 It also accepted a retrospective premium proposal for active  
2 employees.

3 MR. HEMPLING: What does that mean, sorry?

4 MS. SEKIMURA: Retrospective premium takes a look  
5 back at prior years' claims that are filed or lost history;  
6 and, based on the amount of premiums paid, will either result  
7 in a refund or an additional payment in the following year.

8 MR. HEMPLING: Any other changes the Company is  
9 implementing as a result of what we were just discussing?

10 MS. SEKIMURA: That basically sums up the  
11 recommendations.

12 Whereupon, Mr. Hempling briefly confers with the  
13 Commission.)

14 MR. HEMPLING: Mr. Alm, before I forget this, and  
15 thanks to Mr. Williams for reminding us of it, I had a  
16 discussion with one of your witnesses yesterday about the  
17 account managers and their job duties.

18 Has somebody reported to you about that  
19 conversation?

20 MR. ALM: Yes, they have.

21 MR. HEMPLING: The specific question I asked was, I  
22 think, of Mr. Peter Young was, Do the account executives have  
23 it within their job responsibilities to help customers of HECO  
24 lower their bills?

25 MR. ALM: And the answer that I hope he gave was

1 yes.

2 MR. HEMPLING: Mr. Brosch, you focused on -- you've  
3 described the advantages of having an issue focused audit as  
4 opposed to a very general management audit? Correct.

5 MR. BROSCH: Yes.

6 MR. HEMPLING: Is there any risk that if the audit  
7 focuses only on specific issues, specific costs, that it might  
8 miss broader conclusions about Company culture, Company  
9 commitment, Company performance?

10 Is there some possible forest versus trees risk  
11 here; or, do you think that focusing only on the issues  
12 specific audits is sufficient?

13 Any thought?

14 MR. BROSCH: Well, certainly there's risks that  
15 there's some problem resident within the organization of the  
16 Company for some inadequacies in certain areas of management  
17 or process that could be improved.

18 My view is that the primary responsibility of the  
19 management is to do its own critical self-assessment with an  
20 objective of finding the best way as agents for ratepayers of  
21 providing service at reasonable costs.

22 So your questions this morning reveal places where  
23 the Company, on its own, has solicited the advice of outside  
24 auditors and experts in areas where its specialized attention  
25 was needed. I suppose that if there were the perception that,

1 in total, the Company is poorly performing, you might  
2 commission some broader assessment of performance.

3 The challenge goes back to what you asked me about  
4 initially, one of how do we distinguish the unique  
5 characteristics of Hawaii and operating in Hawaii from  
6 benchmarks you might find on the mainland and in other places;  
7 and, that I think is problematic.

8 CHAIRMAN CALIBOSO: Mr. Brosch, one follow up on  
9 that, on the general more focused type as opposed to focus  
10 type audit.

11 What I was wondering was more along what you had,  
12 kind of, mentioned was if you do focus the audit on specific  
13 issues like you suggest, and you had some good suggestions,  
14 that assumes that we know where to focus it; in other words,  
15 we may miss something that we just haven't seen or we don't  
16 know about yet.

17 MR. BROSCHE: True.

18 CHAIRMAN CALIBOSO: Is there a way to develop  
19 another layer of a review or audit, or whatever you want to  
20 call it, that could take a look at it from a broader scope to  
21 try to identify whether or not there were other targets for  
22 this type of review that could be identified?

23 MR. BROSCHE: There are some screening techniques  
24 that can be avoided and, for example, the Consumer Advocate  
25 takes the financial reports that are submitted by the



1 utilities and maintains the spreadsheets to have an awareness  
2 of unusual changes in costs from month to month or quarter to  
3 quarter.

4 We look at those spreadsheets when we do a rate  
5 case investigation to size up the places where costs are  
6 moving in ways that aren't intuitively reasonable; so, that we  
7 can focus our discovery in the rate case in those areas and  
8 try to find root causes for those changes.

9 If I back up from that, another approach that could  
10 be employed that suffers from the problem I spoke of with  
11 Mr. Hempling is attempting to do a quantitative analysis,  
12 ratio analysis, for example, of numbers of customers served  
13 per employee, you know, that sort of, kind of, high level  
14 operational comparison to other businesses.

15 The challenge is you get into unique costs and  
16 environmental differences and, you know, more reasons why the  
17 comparisons don't work than why they do.

18 So the balancing is always one of -- is it cost  
19 effective to look in these other areas, and it's not obvious  
20 to me that the high level reviews beyond paying attention to  
21 the financials as the actuals roll in and rate cases come in,  
22 would show you a lot of payback.

23 I have just, as an example, years ago I  
24 participated in an Indiana rate case where the utility was  
25 arguing that its allowed return should be based on the fair

1 value rather than the original cost of its assets because of  
2 its exemplary performance based on ratios of numbers of  
3 customers served per employee and plant dollars per customer  
4 and all of these analyses to many other utilities throughout  
5 the mainland; and, that was a lively discussion ultimately  
6 concluding that you have to be very specific about the  
7 benchmark group you try to compare yourself to because of  
8 regional differences and other factors.

9 CHAIRMAN CALIBOSO: Thank you.

10 Any response, Mr. Alm?

11 MR. ALM: I think generally, you know, and this  
12 rate case is probably as good an example as any, you know, we  
13 read your decision to say that there were areas that you  
14 wanted that you felt, based on what you saw, that you wanted  
15 further review of, and we read it as employee compensation,  
16 project cost estimation and overruns.

17 You know, in other words, there are certain issues  
18 that occur that you can read back into the Company to say  
19 those may provide fruitful areas to look at. So that's why  
20 we -- I had commissioned in our local utility study. That's  
21 why in our suggestions in one of them is that you look at --  
22 that we jointly look at the issue of project cost engineering  
23 and what goes into that and the way you get estimates or the  
24 way we achieve project cost estimates.

25 And so that's the other way is you know what is it

1 that based on your sense of ours or the Consumer Advocate  
2 sense of what we're doing you want to see explored, you know,  
3 and without necessarily concluding there's something wrong  
4 there; but, at this time in this place, this issue strikes us  
5 as something we would like more information about, and I do  
6 agree with an observation Mr. Brosch made earlier, and that is  
7 a rate case timing has real challenges in terms of doing often  
8 a good examination of what's really going on.

9           You know just the way we structure rate cases and  
10 in the IR process. You know some of these, if we could do an  
11 audit in time for the 2011 rate case, if we do certain  
12 targeted audits over the next period of time and then be able  
13 to incorporate their results in the 2011 rate case, we might  
14 all be better informed and make that a decision.

15           CHAIRMAN CALIBROSO: All right. Thank you.

16           Just one follow up on the account manager question  
17 that Mr. Hempling just followed up on. And I understood that  
18 there was some possible hearing exhibits given that we've  
19 covered already.

20           Is there a need to go into these hearing exhibits?

21           MR. WILLIAMS: Mr. Chairman, it's up to the  
22 Commission. We are prepared to submit three exhibits.

23           One is a checklist for our largest customers which  
24 the accounting manager goes over with those customers; and,  
25 the second two are letters involving Seawater Air

1 Conditioning, where the Company has gone out of its way to  
2 inform customers of a particular choice that would reduce  
3 consumption by the customer.

4 CHAIRMAN CALIBOSO: And the witness.

5 MR. WILLIAMS: There's illustrations of the --

6 CHAIRMAN CALIBOSO: I'm sorry, the witness for  
7 these exhibits?

8 MR. WILLIAMS: Would be Mr. Alm.

9 CHAIRMAN CALIBOSO: Mr. Alm.

10 Mr. Hempling, you don't have any more questions on  
11 these. Correct?

12 MR. HEMPLING: Correct.

13 CHAIRMAN CALIBOSO: So, I guess, it's up to the  
14 Company if it wants to propose these as hearing exhibits and  
15 to provide any kind of response that it would like to.

16 MR. WILLIAMS: Well, we'd simply then propose them  
17 as hearing exhibits. The first one would be -- the checklist  
18 would be hearing Exhibit 9, I think is our next in order. The  
19 letter dated August 1st, 2006, would be Hearing Exhibit 10 --  
20 HECO Exhibit 10, excuse me.

21 MR. MCCORMICK: They're both dated August 1st.

22 MR. WILLIAMS: What's that?

23 MR. MCCORMICK: They're both dated August 1st.

24 MR. WILLIAMS: Okay. The one from Hawaiian  
25 Electric, as counsel as now correctly stated from Hawaiian

1 Electric to customers dated August 1, 2006, would be hearing  
2 Exhibit 10; and the one from Honolulu Seawater Air  
3 Conditioning to customers, dated August 1st, 2006 would be  
4 Hearing Exhibit 11 -- HECO Hearing Exhibit 11.

5 CHAIRMAN CALIBOSO: Thank you.

6 And the other parties have seen this, Mr. Itomura?

7 MR. ITOMURA: Yes, the Consumer Advocate reviewed  
8 the exhibits and has no --

9 MR. MCCORMICK: The DOD has reviewed --

10 MR. ITOMURA: -- objections.

11 MR. MCCORMICK: Excuse me. The DOD has reviewed  
12 these exhibits and has no objections.

13 (HECO Hearing Exhibit Nos. 9 through 11 were  
14 marked for received into evidence.)

15 CHAIRMAN CALIBOSO: All right. Mr. Alm, if you  
16 could just, you know, briefly summarize each one of them and  
17 their purpose.

18 MR. ALM: The first exhibit shows the cause of  
19 issues that account executives are to raise with their  
20 customers; and, the blanks as you go down in your visit, you  
21 need to check off what you've done with them; as, you can see  
22 in the account maintenance, one of them is the time-of-use  
23 rider analysis.

24 So we do go over different pricing options with  
25 them; but, as you can see, we also go over, you know, our

1 taking advantage of, you know, their eConnectivity where you  
2 got, you know, down towards the lower part, you know, things  
3 like are there planned outages that we have because of  
4 construction we're doing in your area, are there planned  
5 outages you have because you're going to work on your system;  
6 and, then on the bottom part, you know, what are the DSM  
7 efficient programs available to you, what are the load  
8 management programs.

9 This area of the Company, you know, are clearly  
10 distinct from the operational areas of the Company, has, as  
11 its mission, working with customers to provide good customer  
12 service which, in this day in age, means helping them control  
13 their bills.

14 Prior to the movement a way that the energy  
15 efficiency programs, clearly, a lot of what they worked with  
16 is getting them rebate checks, which it's a happy day with us  
17 and our customer if we can help them lower their bill and get  
18 a check for doing so; and, these folks worked very hard on it.

19 You know, we just wanted to show you sort of the  
20 idea that they really do have a responsibility to run over a  
21 set of issues with their client.

22 The second two letters --

23 MR. WILLIAMS: Just to go back to that Hearing  
24 Exhibit 9, this is a checklist that applies to the largest 68  
25 customers; is that correct?

1 CHAIRMAN CALIBOSO: That's a question, Mr. Alm.

2 MR. ALM: Yes.

3 And then the second two letters, as the Commission  
4 knows, because you agreed to a specific form of rebate for  
5 these folks. Seawater Air Conditioning -- the Seawater Air  
6 Condition project is attempting to get started in downtown  
7 Honolulu. They were struggling with their clients to get sort  
8 of in the door; so, they asked us if we would be willing to  
9 recommend the clients to look at them.

10 We said that we would not only do so and write a  
11 letter to them, and they gave us a list of people to write  
12 letters to, but we have provided them with a generic letter  
13 and that any account that they visited where they wanted one  
14 of our account executives to go with them to explain why we  
15 thought Seawater Air Conditioning was a good concept, our  
16 account representatives would do so.

17 So just, as an example of, whether they're willing  
18 to, if you will, sell against ourselves, but provide the  
19 customers with options to lower their bills, absolutely, we'll  
20 even go out of our way to do so; and, I think this area of the  
21 Company has worked very hard to provide that kind of level to  
22 our customers.

23 CHAIRMAN CALIBOSO: Thank you.

24 Let me just ask, again, Mr. Hempling, any questions  
25 on this?

1 MR. HEMPLING: No, sir.

2 CHAIRMAN CALIBOSO: Commissioners?

3 All right. This completes the Management Audit  
4 panel. At the end of each panel we give an opportunity to the  
5 parties to question each other, which is cross-examination.

6 So, mr. Williams, any questions?

7 MR. WILLIAMS: I always taught myself not to ask a  
8 question that I didn't know the answer to; so, I guess, I have  
9 no questions.

10 CHAIRMAN CALIBOSO: Thank you.

11 Mr. Itomura?

12 MR. ITOMURA: The Consumer Advocate has no  
13 questions.

14 MR. MCCORMICK: The Department of Defense has no  
15 questions.

16 CHAIRMAN CALIBOSO: All right. Thank you very  
17 much.

18 This completes the panel part of the hearing.

19 We will now go to the dispute issues; and, I think,  
20 we are scheduled to handle one of the disputed issues today,  
21 information on advertising.

22 We could take a short break and continue until  
23 12:15; or, we can take a very early lunch and come back.

24 The morning session typically goes to 12:15 or we  
25 can take a very early lunch break and come back after an



1 hour-and-a-half.

2 Do the parties have a reference?

3 MR. WILLIAMS: We can do it either way. I believe  
4 our other witnesses are in the hall. Maybe we can have just a  
5 brief discussion of how we're going to do this section.

6 Would it be by individual witness or would we just  
7 have both witnesses -- we have two witnesses on informational  
8 advertising, but we have a third one on the panel, and we only  
9 propose to have one witness give a summary to save time.

10 CHAIRMAN CALIBOSO: I had intended to set this up  
11 as the normal direct examination, cross-examination.

12 MR. WILLIAMS: Okay.

13 CHAIRMAN CALIBOSO: So one witness at a time.

14 MR. WILLIAMS: Yes, that would be fine too.

15 CHAIRMAN CALIBOSO: Is the Consumer Advocate ready  
16 now?

17 We could take a 15-minute break and then start that  
18 session and just go until at least 12:15 and then we can, if  
19 we need to, continue this afternoon.

20 That'll be good?

21 MR. ITOMURA: Yeah, if with a short break just to  
22 get organized, the Consumer Advocate is ready to go at this  
23 time.

24 CHAIRMAN CALIBOSO: So we can recess now and come  
25 back at 11:30.

1           Okay. We are in recess.

2           (Whereupon, at 11:16 a.m., a recess was taken, and  
3 the proceedings resumed at 11:33 a.m., this same day.)

4           CHAIRMAN CALIBOSO: Good morning.

5           This hearing is reconvened.

6           Mr. Williams, your first witness. Identify the  
7 refiled written testimony as well.

8           MR. WILLIAMS: Thank, Mr. Chairman.

9           Our first witness on this subject is Ms. Lynne  
10 Unemori, who has been sworn in, and she submitted HECO RT-10A;  
11 and, in addition, she's generally adopted the concepts in  
12 Mr. Hee's direct testimony on the subject HECO T-10 but  
13 Mr. Hee will be presented as a witness and will be able to  
14 respond to specific questions about direct testimony in IR  
15 response.

16          CHAIRMAN CALIBOSO: Thank you.

17          You may proceed.

18          MR. WILLIAMS: Good morning.

19          You get to say good morning back.

20          (Laughter.)

21          MS. UNEMORI: Good morning.

22                               DIRECT EXAMINATION

23          BY MR. WILLIAMS:

24               Q. Will you please state your name and position?

25               A. Chairman Caliboso, Commissioners Cole and Kondo, my

1 name is Lynne Unemori, and I'm Vice President for Corporate  
2 Relations for Hawaiian Electric.

3 THE COURT REPORTER: Will you please place the  
4 microphone closer to you please. Thank you.

5 BY MR. WILLIAMS:

6 Q. Have you had the opportunity to testify previously  
7 before this Commission in a formal hearing?

8 A. No, I have not had the opportunity to do that  
9 before.

10 Q. Given that this is your first such appearance,  
11 could you, please, tell us a little bit about your background.

12 A. Sure. Thank you.

13 As the Vice President for Corporate Relations for  
14 Hawaiian Electric Company, I have the responsibility for our  
15 Corporate Communications Department, managing both internal  
16 and external communications, including my current position,  
17 which I've held for more than three years, I have more than 18  
18 years of experience in the corporate communications area of  
19 the Company.

20 Prior to that, I worked in financial accounting  
21 both at Hawaiian Electric and for a CPA firm. And my  
22 education and experience -- excuse me, my background and  
23 experience were provided in HECO R-10A00.

24 Q. What subject matter will you be covering today?

25 A. I'll be discussing informational advertising and

1 how critical it is to have sufficient resources to continue to  
2 widely and consistently share key energy information with our  
3 customers. Keeping them informed is a especially important,  
4 given the urgent need for our State to reduce its dependence  
5 on fossil fuel; and, in light of the unprecedented ambitious  
6 and critically important requirements of our State's revised  
7 renewable portfolio standards law, the new energy efficiency  
8 portfolio standards and the Greenhouse Gas Reduction law.

9 Q. Could you please provide a brief overview summary  
10 of the Company's position?

11 A. Yes, thank you.

12 The Company is requesting a total of \$1.1 million  
13 in nonlabor costs for informational advertising; and, while  
14 this may sound like a large amount, it is important to note  
15 that this is significantly less, about one-third of the  
16 amount that the Company has spent on customer informational  
17 advertising in each of the prior two years, including utility  
18 O&M expenditures, as well as DSM and RCEA, or the Residential  
19 Customer Efficiency Advertising funding, the Company spent  
20 3.5 million and 2.9 million in 2007 and 2008 respectively.

21 This lower amount of budgeted expenditures in the  
22 test year does take into consideration the transfer of the  
23 energy efficiency programs to the third party public benefits  
24 administrator, CSIC, earlier this year and still provides for  
25 a minimal level of resources to help educate our customers

1 about why it's so urgent and what will it take to transition  
2 to using more renewable resources and to reenforce the need to  
3 permanently change energy use behavior and continue the  
4 momentum of energy efficiency and conservation results  
5 achieved through Company's successful information campaigns  
6 thus far.

7 By doing so, we're supporting the State's energy  
8 policy and working to achieve the aggressive RPS standards  
9 that utilities required by law to meet, helping to meet the  
10 State's Greenhouse Gas reduction rules and the  
11 responsibilities that will be placed on us, as a utility, in  
12 meeting those goals and helping fulfilling our Company's  
13 fundamental obligation to provide energy information to our  
14 customers; both a bigger picture concept, as well as practical  
15 steps to help customers manage their energy costs every day.

16 Q. What is your understanding of the Consumer  
17 Advocate's position on this issue?

18 A. The Consumer Advocate has proposed a negative  
19 adjustment to remove 774,000 of nonlabor informational  
20 advertising costs from the test here resulting in 342,000 for  
21 the 2009 test year in nonlabor expense for informational  
22 advertising.

23 This adjustment was based on using the Company's  
24 actual recording utility non-DSM advertising expenses in 2006,  
25 2007, and, 2008; and, in its testimony, the Consumer Advocate

1     stated it proposed the adjustment to focus the Commission's  
2     attention on this issue and to seek clarification on the  
3     Commission's intentions regarding utility provided  
4     conservation advertising when the Commission ruled not to  
5     continue the RCEA program after 2008.

6             Q.     Did the Department of Defense take a position on  
7     this issue in its written testimonies?

8             A.     My understanding is the Department of Defense has  
9     not taken a position on this issue.

10            Q.     There has been discussion, particularly in the  
11     Consumer Advocate's filed testimony, as to whether the  
12     informational advertising efforts by the Company may duplicate  
13     the marketing efforts by SAIC; or, perhaps should be at a  
14     substantially lower level than in the past several years.

15                   What is the Company's position on this point?

16            A.     First and foremost, no matter who has formal  
17     responsibility for administering the specific DSM programs,  
18     getting the public to understand the urgency and what it will  
19     take to transition to the cleaner energy future that we need  
20     for our State and to act on that urgency is a huge task and  
21     it's a shared responsibility by many; and, in conversations  
22     with SAIC, I believe we've had mutual agreement on this point.

23                   As a public utility, we have a continuing  
24     responsibility to help inform our customers by providing them  
25     energy information and more broadly gaining their support for

1 the achievement of the State's energy policy.

2 Having informed customers who know and embrace  
3 their role is a critical element to transition to that clean  
4 energy future. It's also important to build fundamental  
5 lasting changes in attitude and behavior regarding our  
6 community's energy use; and, aside from promoting specific DSM  
7 programs, this requires providing other energy saving  
8 information. It's just the importance of reducing energy use  
9 during peak times and constant reminders of every day actions  
10 that people can take in their lives.

11 These types of messages and the broader renewable  
12 energy messages are not specifically covered by the DSM  
13 programs promoted by the third-party administrator building  
14 the sense of personal responsibility and lasting change in  
15 energy use behavior takes an investment in an ongoing mass  
16 media campaign.

17 Q. Can you cite other support for the utility to  
18 continue to be fundamentally involved in informational  
19 advertising and customer education?

20 A. Yes. Customers expect to receive such energy  
21 information from their utility. A recent Edison Electric  
22 Institute poll found that a majority, 66 percent, look at  
23 their electric utility for information on how to use  
24 electricity more efficiently.

25 A distant second expected source by customers is

1 retailers at 27 percent followed by federal and state  
2 government at 17 and 13 percent, respectively. It also sends  
3 a very powerful message for the utility to be telling itself  
4 asking -- excuse me, asking its customers itself to use less  
5 of its product and to use it more efficiently.

6 Q. Of course, the Consumer Advocate is not proposing a  
7 zero amount for informational advertising in this docket. The  
8 issue is whether the lower amount of advertising proposed by  
9 the Consumer Advocate is sufficient to achieve these  
10 objectives and goals.

11 Can you summarize your position on that?

12 A. No, unfortunately, it is not sufficient. Educating  
13 the public and gaining their support for the investments  
14 needed to meet the tough requirements of the State's RPS law  
15 and other clean energy requirements as well as achieving the  
16 lasting changes in behavior takes a sustained mass media  
17 effort to continually reenforce this information with the  
18 general public.

19 The 342,000 in advertising proposed by the Consumer  
20 Advocate is not sufficient to support a meaningful mass media  
21 campaign, especially in an environment with climbing  
22 advertising rates and (inaudible) of completing this media  
23 mass market communication vehicles.

24 As discussed earlier, the Company's budget for the  
25 test year did take into account the transfer of the energy



1 efficiency program to SAIC and thus are lower than the total  
2 amount in recent years. It's also important during this  
3 transition period for the DSM programs that a meaningful level  
4 of this type of advertising continues uninterrupted so that  
5 the State does not lose the energy efficiency momentum built  
6 up through the Company's past information campaign.

7 Q. When the informational advertising was proposed in  
8 prior rate cases concerns were raised about whether such  
9 advertising would be effective.

10 Since we now have actual experience, what are the  
11 results?

12 A. As Mr. Alm, Mr. Hee, and I have discussed in  
13 testimony and in IR responses, the Company's informational  
14 advertising efforts have achieved demonstrated results. For  
15 example, the evaluation report for the RCEA program found that  
16 as a result of the advertising efforts undertaken by the  
17 Company in 2007 and 2008, almost 94 percent of Oahu residents  
18 surveyed recalled at least one of six messages or advertising  
19 elements from Hawaiian Electric and nearly half of all  
20 respondents reported that they actual did something different  
21 to conserve energy after seeing or hearing one of the  
22 Company's ads.

23 Q. Why is it important to maintain the momentum the  
24 Company has achieved in its advertising?

25 A. It's a well-established marketing principle that a

1 significant role in advertising will not only quickly result  
2 in a loss of awareness achieved by earlier marketing efforts,  
3 but it will also require the expenditure of even greater  
4 amounts in order to regain that same level of awareness later.  
5 Achieving sustained behavior requires sustained  
6 communications.

7 Q. A key question in this case, given the difficult  
8 economic times the State is in, has the Company considered  
9 reducing its advertising expenditures as a cost containment  
10 measure?

11 A. We are very sensitive to the economic conditions in  
12 our State and we have made concerted -- a concerted effort to  
13 implement cost containment measures in the Company.

14 In the case of resources to educate the public is  
15 noted in the test year, we have already reduced by about  
16 two-thirds the total amount budgeted for spending on  
17 informational advertising compared to the prior two years;  
18 and, from a bigger picture standpoint, a critical foundation  
19 to improving our economy -- our economy is making a  
20 fundamental shift away from fossil fuels.

21 Again, this requires widespread and sustained  
22 public education about the investments and choices we need to  
23 make as a community; and, on a more direct consumer level,  
24 providing regular information to help customers manage their  
25 energy bills is even more important during tough economic

1 times.

2 Q. Do you have any final comments?

3 A. Yes, we certainly understand that the impact on  
4 costs to customer of any category of utility expenditures  
5 can't be viewed in isolation, but the estimated impact of the  
6 requested level of advertising expenditures in this case on a  
7 typical residential customer bill would amount to roughly  
8 20 cents a month.

9 Q. Okay. And did you have anything else you wanted to  
10 add other than that?

11 A. Yes, I did. Just let me wrap up with a few  
12 comments.

13 As we tried to establish, as a policy matter,  
14 Grassroots Consumer Education is important; and, this has been  
15 supported by the National Action Plan for Energy Efficiency  
16 sponsored by the Department of Energy and the Environmental  
17 Protection Agency. The plan listed the need to broaden and  
18 communicate the benefits of the opportunities for energy  
19 efficiency as one of five key policy recommendations.

20 So to reiterate, this is a critical time for our  
21 State. We've experienced that feeling of absolute  
22 helplessness when oil prices skyrocketed last year. To  
23 address that vulnerability, to fulfill our responsibilities to  
24 support State and energy policy and meet the very important  
25 and aggressive RPS and other goals, takes widespread and

1 sustained public education about the choices we need to make  
2 as a community in order to meet these goals.

3 The Company is also required by law to meet these  
4 goals and it's reasonable to receive recoveries for some  
5 resources to help achieve these obligations.

6 And lastly, again, achieving lasting change in  
7 public attitudes and energy habits and making it a lifestyle  
8 change requires sustained efforts to keep that momentum going  
9 and this is a shared responsibility and we believe we play a  
10 critical role in carrying through on that.

11 Thank you.

12 MR. WILLIAMS: Mr. Chairman, the witness is  
13 available for questions.

14 CHAIRMAN CALIBOSO: Thank you.

15 Mr. Itomura, cross-examine, please.

16 MR. ITOMURA: Wait just one second.

17 CROSS-EXAMINATION

18 BY MR. ITOMURA:

19 Q. Good morning, Unemori.

20 A. Good morning.

21 Q. This is going -- the questions that I have for you  
22 this morning are based on your rebuttal.

23 I understand counsel has mentioned that you're  
24 prepared to answer questions for both testimonies from Mr. Alm  
25 and Mr. Hee, and we'll come to that.

1 MR. WILLIAMS: Mr. Alm will answer his own  
2 questions.

3 MR. ITOMURA: Just as a matter of clarification,  
4 Chair, as I was mentioning, counsel, said that the witnesses  
5 will all be available for cross-examination, although  
6 Ms. Unemori provided the direct testimony.

7 Is it okay if we start with direct -- I mean,  
8 cross-examination of the witnesses supposedly out of order  
9 since Ms. Unemori will be the only witness that takes the  
10 stand?

11 CHAIRMAN CALIBOSO: I believe all three will be  
12 called to take the stand one at a time; so, all three will be  
13 individually available for cross-examination.

14 MR. WILLIAMS: Yes. Ms. Unemori will answer any of  
15 your questions and then we'll put Mr. Hee on the stand. I'm  
16 not going to ask Mr. Hee to give a summary. And, if you have  
17 any further questions or she referred to any questions to  
18 Mr. Hee, he will be able to answer your questions and then  
19 Mr. Alm will take the stand.

20 MR. ITOMURA: Okay. I just needed to clarify it  
21 so.

22 CROSS-EXAMINATION (Continued)

23 BY MR. ITOMURA:

24 Q. Good morning, Ms. Unemori.

25 A. Good morning.

1 Q. Referring to your rebuttal testimony, specifically  
2 page 3 and line 1, the Company stated it's invested 3,500,390  
3 and 2,924,519 energy efficiency and other informational  
4 advertising in 2008.

5 Do you mean by this testimony to imply that  
6 ratepayers did not reimburse these costs, in particularly, the  
7 RCEA amounts included which were recoverable through the  
8 IRP DSM surcharge?

9 A. No, that is not my intention by that statement.

10 Q. Following that on line 7 of page 3, you stated that  
11 the public benefits fund administered a contract with the  
12 Commission averaged out to a total of about 400,000 a year for  
13 both residential and commercial advertising.

14 Then you referenced a discussion with the PBF  
15 Administrator; and, in this discussion, did you inform the  
16 NCIC that they clearly had not budgeted enough for their  
17 advertising efforts?

18 A. No, we did not have that conversation. I don't  
19 think we were suggesting that the amount that they budgeted  
20 for the purposes of what they need to achieve under their  
21 contract for administering the specific DSM programs was  
22 appropriate or not appropriate. That's -- I think they're  
23 responsible for that, and we would defer to their judgement as  
24 to what they think is appropriate.

25 What we're talking about here is a broader

1 information campaign that to disseminate public information on  
2 all the purposes that I discussed earlier and not necessarily  
3 to market specific DSM measures.

4 Q. At the top of page 5 your statement is that it  
5 doesn't appear that the PBF Administrators' advertising budget  
6 will be sufficient to provide the level of energy awareness  
7 that HECO is able to deliver in 2007, 2008.

8 Was that your personal opinion or the opinion of  
9 SAIC?

10 A. Again, we did not have that conversation with SAIC  
11 regarding specific budgeted amounts. We had a general  
12 conversation with SAIC in which we mutually agreed that in  
13 order to be able to educate the public and create fundamental  
14 changes in behavior and attitude it was going to take efforts  
15 on the part of many parties and no one party is responsible  
16 for it; so, let me just leave it there for now.

17 Q. So is it true that your opinion was the advertising  
18 budget, the PBF administrative advertising budget was  
19 insufficient to provide the level of energy awareness?

20 A. Again, as I said earlier, the budget that they  
21 provided, my understanding is that's a budget to achieve what  
22 their obligations are under the contract. I don't believe  
23 under their contract they have the responsibility for carrying  
24 out a mass, broad customer energy awareness program.

25 And so, as I said earlier, I'm not making a

1 judgement about their budget in the context in which for the  
2 goals they provided it. What we're talking about is broader  
3 than that and in their efforts right now would not -- their  
4 funding right now would not alone be enough to meet those  
5 broader needs.

6 Q. So as a matter of clarification, your reference,  
7 specific reference to sufficient or arguable inefficiency was  
8 referencing your perspective of what is necessary for mass  
9 media effort. Correct?

10 A. What I was referencing was the level of resources  
11 that are needed in order to carry out a broad public awareness  
12 campaign that's aimed at not only educating the public about  
13 the urgency that our economy, that our State faces, regarding  
14 our -- regarding what it takes to get to the clean energy  
15 future that we need to get to and, also, to build a lasting  
16 behavioral and attitudinal change on the part of the public in  
17 order to achieve those goals.

18 Q. On behalf of the Company has this mass media  
19 campaign or effort been specifically defined?

20 A. Could you clarify what you mean by "specifically  
21 defined"?

22 Q. Your testimony today mentions mass media.

23 Has that been specifically quantified or defined in  
24 either your prior testimony or in any other form?

25 A. If you're referring to a budget that indicates how



1 we would allocate the use of the funds requested, yes, that  
2 has been provided in testimony as well as in IR responses.

3 Q. Okay. So your mass media is specifically  
4 referenced in the budget provided in the application?

5 A. Yes.

6 Q. You said line 5, In fact, the PBF Administrator has  
7 already approached the Company to discuss, on a preliminary  
8 basis, the possibility of supplementing the PBF  
9 Administrator's advertising efforts with Company advertising.

10 Therefore, in this approach has SAIC offered to pay  
11 HECO to do more advertising or in any way suggested that HECO  
12 ratepayers should pay through their rates for this benefit to  
13 SAIC?

14 A. No, they have not.

15 COMMISSIONER KONDO: Could you ask that question  
16 again?

17 I think I wasn't sure of the answer since I think  
18 there were multiple questions.

19 BY MR. ITOMURA:

20 Q. Has SAIC offered to pay HECO to do more  
21 advertising?

22 A. No.

23 Q. And subsequently was it ever suggested that HECO  
24 ratepayers pay through their electric rates for this benefit?

25 A. The benefit -- I'm sorry, what benefit are you

1 referring to?

2 Q. Benefit to SAIC for their additional advertising?

3 A. The answer would be no still.

4 Q. If SAIC fails to meet performance goals, as  
5 mentioned in its contract, and stands to lose 700,000 per year  
6 in incentive payments set forth in such contract, do you know  
7 if SAIC could decide to spend more in advertising if they  
8 thought it would help?

9 A. I don't think it's my place to speak for SAIC in  
10 how they would address their obligations.

11 Q. If the Commission agreed with HECO that more  
12 spending on energy efficiency awareness advertising is  
13 necessary but would like to hold SCIS responsible for  
14 maximizing the payback of that additional spending, should the  
15 PUC provide that funding to HECO or to SAIC?

16 A. As I touched upon in my opening statement, we  
17 believe it is critical that the responsibility for meeting --  
18 for educating the public to meet the goals that we need to  
19 meet as a State is a responsibility that's shared by many  
20 parties. It's not -- it's not appropriate to put that all of  
21 that responsibility on SAIC; and, as I said earlier, for us,  
22 as a public utility, we have a fundamental obligation to carry  
23 through on the education efforts as well -- as well as legal  
24 requirements that we need to make -- meet under the RPS and  
25 other laws, and we still believe it's important to have the

1 resources needed in order to achieve those.

2 Q. On page 7 line 1 you stated that some of HECO's  
3 advertising compliment the PBF's Administrator efforts by  
4 recommending actions that direct customers to PBF  
5 Administrator's programs.

6 Would you agree this could serve as a ratepayer  
7 funded subsidy for a cost that PDF administrators intended to  
8 incur?

9 A. Could you say that again?

10 Q. Just the question?

11 Would you agree that -- let me start over.

12 You stated that HECO's advertising will compliment  
13 the administrator's efforts by recommending actions to direct  
14 customers to programs that would arguably be administered by  
15 the PBF Administrator.

16 Would you agree that this effort could serve as  
17 ratepayer funded subsidy for the cost of PBF administers  
18 intended to occur?

19 A. As I said earlier, I believe that's important for  
20 us to support the dissemination in the sharing of this kind of  
21 information and if some of the measures that we're  
22 recommending customers take happen to be programs that the  
23 public benefits administrator, you know, is administering that  
24 that's still appropriate; because, as a utility, I think we're  
25 expected and we should.

1           It's a part of our responsibility to support the  
2 efforts of the public benefits administrator -- of the PBF  
3 Administrator; and, so I don't know if I've answered your  
4 question, but I do think that we have a responsibility to  
5 support their efforts as well.

6           Q.    To put it another way, if customers are directed to  
7 a PBF Administrator's programs, due to the performance  
8 incentive provisions in the contract, would you acknowledge  
9 that this would cause an administrator to larger contractual  
10 incentive payments?

11          A.    I wouldn't know and I'm not familiar with how  
12 they're measured. I don't -- I guess it would depend on the  
13 volume of advertising that we were doing that was directly  
14 targeted to programs that are DSM programs; but, if the  
15 question is would we -- if directed, would we not mention any  
16 of the PBF Administrator's program in our advertising, if we  
17 were directed to, we would not because it felt that that would  
18 remove that potential, but it seems again, this is an effort  
19 that we all need to make together.

20                It's an effort where we should be supporting each  
21 other; and, so it would seem sort of counterintuitive that we  
22 would not try to at least mention some of the program  
23 offerings that they have available for customers in order to  
24 help us get the energy efficiency savings we need as a State.

25          Q.    To further clarify, is it the Company's position

1 that they would specifically exclude any DSM advertising?

2 A. No, that's not what I said. I think I said the  
3 opposite there. I've stated in my testimony, among the many  
4 things that we would offer to our customers in terms of  
5 actions that they can take, we would include reference to  
6 solar water heating, Energy Star appliances, compact  
7 fluorescent bulbs, if that program continues; and, those are  
8 things that are administered by the SAIC.

9 Q. You speak of the responsibility of the utility to  
10 provide information to customers. On page 8 of your rebuttal  
11 testimony, lines 15 through 23, you've listed a series of  
12 obligations that HECO provides information to customers about  
13 electric safety, equipment protection, Rule 16 damage claim  
14 rates, outage prevention, and other initiatives.

15 In your opinion, have these obligation always been  
16 effective or are these new requirements and obligations?

17 A. These are not new requirements and obligations.  
18 These are continuing.

19 Q. Has HECO spent an adequate amount of funds in past  
20 years to fulfill these obligations?

21 A. We believe we have spent an adequate amount, but  
22 it's something that every year we review in the context of the  
23 current conditions to determine whether our advertising plan  
24 should be changed. I might also mention that some of these  
25 objectives we also support with the considerable amount of

1 other efforts as well as community outreach and many other  
2 steps.

3 Q. You mentioned the Consumer Advocate's position on  
4 direct.

5 Is it correct that the Consumer Advocate has not  
6 completely eliminated HECO's proposed test year information on  
7 advertising?

8 A. That's correct.

9 Q. Is it correct that instead the Consumer Advocate  
10 recommended an average historical spending level based on the  
11 last three years, not including RCEA spending?

12 A. That's correct.

13 Q. Moving to page 14 at line 19 you provide that since  
14 the RCEA program was discontinued, it is reasonable to restore  
15 utility advertising to levels that will at least partially  
16 allow for base level mass media marketing to maintain  
17 awareness and momentum established by advertising efforts over  
18 the last several years, and you repeated that again today.

19 In your opinion, was the Commission wrong in  
20 deciding to discontinue the RCEA program?

21 A. We, certainly -- I would not -- we believe there  
22 certainly was very demonstrated value in the RCEA program. We  
23 understand that the Commission, in its decision, didn't rule  
24 out the possibility of reviving something like it in the  
25 future. Just from an overall standpoint, we think that what

1 it needs, that a program and funding like that is important in  
2 order to be able to achieve the very urgent and difficult  
3 goals that we have to meet as a State.

4 Q. This urgency was not to the level where HECO felt  
5 it appropriate to file an appeal of the Commission's decision;  
6 is that correct?

7 A. We did not file an appeal, to my knowledge.

8 Q. So are you aware of any language in the  
9 Commission's order, the order that terminated the RECA  
10 program, directing HECO to continue with mass media marketing  
11 campaigning debt awareness of energy efficiency?

12 A. I'm sorry, was your question -- is there any  
13 language in their order that direct us to continue to do that,  
14 I am not aware of such specific language.

15 Q. Is it your understanding that the Commission was  
16 interested in continuing the mass media campaign and provide  
17 it under PBF arrangement where spending and performance could  
18 be measured and monitored and the ad is presented in the way  
19 that promotes the PBF Administrator's identity as opposed to  
20 HECO's?

21 A. I'm sorry, am I aware -- can you repeat the  
22 question?

23 Q. Considering the Commission's order terminating the  
24 RECA program and establishing the PBF arrangement, would you  
25 acknowledge that it was the Commission's interest to provide a

1 mass media -- continue to provide a mass media campaign where  
2 the spending and performance could be measured and monitored  
3 and the ad presented in a way that promotes the PDF's  
4 administrators's identity?

5 A. I am not aware of the Commission expressly  
6 declaring that intent.

7 Q. Back at page 5, line 21, you made some observations  
8 about the PDF Administrator's advertising focus.

9 Have you reviewed the Hawaii Energy Efficiency  
10 Program Annual Plan document submitted by SAIC on May 1st,  
11 2009?

12 A. I have reviewed it.

13 Q. Okay. I'm going to make some references to this  
14 document; and, at this time, I'd like to ask if you need the  
15 document for your own reference or you have it with you. It's  
16 identified or has been submitted as CA Hearing Exhibit No. 2.

17 A. I have it.

18 Q. At page 4 of this exhibit, if you may, could you  
19 read the bullet item entitled outreach and marketing  
20 strategies.

21 A. I believe this is the one you're referring to.

22 Outreach and marketing strategies that use local  
23 markets, associations and channel partners to maximize  
24 participation and to develop programs that compliment, not  
25 compete with business activities in the energy arena.



1 Q. What is your understanding of the definition or  
2 what "channel partners" is referring to?

3 A. My understanding, as expressed in SAIC marketing  
4 plan, and I don't have the specific reference right in front  
5 of me, was -- but I think they were referring to develop --  
6 targeting basically certain target groups or certain target  
7 markets in order to focus their efforts on.

8 Q. At page 6 of this exhibit under 2.1 there's a  
9 statement, The use of 69 percent of the budget of direct  
10 incentives is one of the highest levels in the country for  
11 these programs.

12 Do you see that?

13 A. I see that.

14 Q. Do you think SAIC should use less than 69 percent  
15 of available funds for incentives so that it can fund more  
16 advertising?

17 A. Again, as I said earlier, I don't think it's our  
18 place to make a judgment on how they determine the best of use  
19 or what they determine would be the best use of their budget.  
20 They're responsible for meeting their obligations under the  
21 contract.

22 Q. Moving on to page 8 of that exhibit, under item  
23 five at the bottom of that page, it appears that SAIC is aware  
24 of the importance of consumer marketing, public information  
25 and education.

1 Is it HECO's position that SAIC is not aware of the  
2 importance of such consumer marketing public information and  
3 education?

4 A. No, that's not our position at all.

5 Q. Page 12 of the exhibit.

6 CHAIRMAN CALIBOSO: Mr. Itomura, you're on  
7 Exhibit 2 still. Correct?

8 MR. ITOMURA: Correct.

9 CHAIRMAN CALIBOSO: Thank you.

10 BY MR. ITOMURA:

11 Q. Page 12 of Exhibit 2 under the heading 3.1  
12 Residential Programs.

13 Do you think it's reasonable for SAIC to form  
14 partnerships with neighborhood boards, condominium  
15 associations, community action agencies and other listed  
16 entities to encourage participation in its energy efficiency  
17 programs as it states there?

18 A. Sure. That seems like a perfectly reasonable  
19 activity.

20 Q. Moving to page 22, 4.1 titled Portfolio Summary.

21 It states that SAIC's strategies will provide a  
22 step change in energy savings based upon enhanced programs,  
23 new programs, and far-reaching marketing campaign that  
24 leverages the island's urgency to become more energy  
25 self-reliant in today's fallout energy marketplace.

1 Do you see that?

2 A. Yes, I do.

3 Q. Is HECO's position that SAIC is unable to deliver  
4 the promise far-reaching for marketing campaign?

5 A. Again, I don't want to speak for SAIC. I believe  
6 SAIC's budget is developed -- has been developed by them using  
7 their best judgment to meet the goals that they've committed  
8 to under their contract.

9 Q. The question more specifically is whether the  
10 Company's perspective is SAIC may be unable to deliver that  
11 promise far-reaching marketing campaign?

12 A. Well, as I said earlier, we do believe that in  
13 order to be effective in having a far-reaching marketing  
14 campaign, it's going to take resources and efforts for many  
15 different parties because it's a shared responsibility; and,  
16 so we believe that it is appropriate for us to be able to  
17 supplement whatever SAIC does with the resources that we've  
18 requested in order to be able to achieve that reach and  
19 penetration of a campaign, a mass market campaign.

20 Q. Following up on that answer, who makes that  
21 determination whether further effort is necessary, additional  
22 and supplemental advertising is necessary to supplement SAIC's  
23 efforts?

24 A. Who would make the determination as to whether SAIC  
25 is --

1 Q. Who would make the determination that HECO needs to  
2 supplement SAIC's efforts in far-reaching market, marketing  
3 campaign?

4 A. Well, as it relates to the approval of resources to  
5 carry that out, of course, that would be a decision for the  
6 Commission. As a Company, we have continued to invest in  
7 spending beyond the amount that we're allowed to recover in  
8 rates; so, on a fairly consistent basis over the last several  
9 years, because of the importance of this need.

10 I would add specifically this year, for example, we  
11 are spending over a million dollars the amount that's included  
12 in rates for this calendar year because the interim D&O was  
13 received in August, is a little over 200,000; so, something  
14 like 850,000, in that range, we're spending without obtaining  
15 recovery for it because we believe this need is so important.

16 Q. Moving to page 64 of that Exhibit 2, CA's Exhibit 2  
17 under 10.4 Marketing and Outreach Strategy, and it continues  
18 onto page 65. It mentions of various programs.

19 Do you see that?

20 A. Yes. Excuse me.

21 Q. Is HECO aware of any information to suggest that  
22 SAIC will be unable or unwilling to do the things discussed  
23 and provided on page 64 through 65?

24 A. No, we're not aware of their inability to carry out  
25 their stated goals.

1 (Whereupon, Mr. Itomura briefly confers with  
2 Mr. Brosch.

3 MR. ITOMURA: At this time, that concludes my  
4 specific questions based upon Ms. Unemori's rebuttal  
5 testimony.

6 If we may move to some questions addressing  
7 Mr. Hee's direct testimony.

8 CHAIRMAN CALIBOSO: For which you want to ask  
9 Ms. Unemori?

10 MR. ITOMURA: No. So, actually, I should have a  
11 question. We're done with Ms. Unemori. So if they do intend  
12 to provide their witnesses as a direct, then we are done with  
13 Ms. Unemori.

14 CHAIRMAN CALIBOSO: That's correct, Mr. Hee will be  
15 called up next --

16 MR. ITOMURA: Okay.

17 CHAIRMAN CALIBOSO: -- I believe.

18 So you don't have more questions for Ms. Unemori?

19 MR. ITOMURA: No further questions for Ms. Unemori.

20 Thank you, Ms. Unemori.

21 CHAIRMAN CALIBOSO: And just --

22 MR. MCCORMICK: The DOD has no questions.

23 CHAIRMAN CALIBOSO: Thank you, Mr. McCormick.

24 And just to close the loop, the Consumer Advocate  
25 had filed these three hearing exhibits.

1 Just to make sure, I assume there are no objections  
2 from the parties for these exhibits?

3 MR. ITOMURA: To clarify, the Consumer Advocate did  
4 submit hearing Exhibits 1, which is the contract Hearing  
5 Exhibit 2, which I was referring to, which is the HEEP Plan.

6 CHAIRMAN CALIBOSO: Is there a three?

7 MR. WILLIAMS: The three relates to cost of  
8 capital, Mr. Chairman.

9 CHAIRMAN CALIBOSO: Okay. All right. So any  
10 objections to these three hearing exhibits at this point?

11 MR. WILLIAMS: Well, we have no objections to one  
12 and two and will not object to Exhibit 3 if we're also able to  
13 update in the area of cost of capital.

14 MR. MCCORMICK: The DOD has no objections.

15 CHAIRMAN CALIBOSO: Why don't you try to work on  
16 the cost of capital in the exhibits and make you sure there  
17 are no objections.

18 MR. WILLIAMS: We don't expect to have any  
19 objections, but we'll work that out before Monday.

20 CHAIRMAN CALIBOSO: Thank you.

21 So we'll accept Hearing Exhibits 1 and 2.

22 (Consumer Advocate Hearing Exhibit Nos. 1 and 2  
23 were received into evidence.)

24 CHAIRMAN CALIBOSO: Mr. McCormick doesn't have any  
25 questions for the Department of Defense. Correct?

1           You don't have any questions?

2           MR. MCCORMICK: No questions, Mr. Chairman.

3           CHAIRMAN CALIBOSO: Commissioners, any questions?

4           COMMISSIONER KONDO: I have some questions,  
5 Mr. Chairman.

6           I just want to get some clarity to one of your last  
7 answers to Mr. Itomura.

8           You had talked about -- I think what you were  
9 talking about was the Company's expenditures for informational  
10 advertising this current year, and I heard you mention  
11 \$1,200,000, did I understand it referencing or relating to the  
12 expenditures for this calendar year and could you explain  
13 those two numbers a little more for me?

14          MS. UNEMORI: Sure. This calendar year, we are --  
15 we have budgeted and we are on track to spend advertising  
16 dollars amounting to over a million dollars, approximately  
17 \$1.1 million.

18          COMMISSIONER KONDO: And could --

19          MS. UNEMORI: So --

20          COMMISSIONER KONDO: -- those be the same -- I'm  
21 sorry.

22          That would be the same account that we're talking  
23 about?

24          MS. UNEMORI: Yes. No DSM. Purely utility O&M  
25 spending. The 200,000 referred to the amount that we're

1 currently recovering in rates, and the way I got that amount  
2 was the amount that we were authorized to recover up through  
3 the August 3rd, I believe, it was the decision, the interim  
4 decision, the decision to implement the interim increase; and,  
5 at that time, there was a change in the amount we were allowed  
6 to recovery; so if I do it on a pro rata basis, it comes out  
7 to be between 200 and 300,000 -- about 240,000, I believe.

8 COMMISSIONER KONDO: I think I saw a number of the  
9 ads that the Company had run relating to the transition from  
10 the Company doing the energy efficiency programs to SAIC doing  
11 those programs.

12 Are you aware of those ads?

13 MS. UNEMORI: Yes.

14 COMMISSIONER KONDO: Were those ads, did they fall  
15 under the informational advertising that we're talking about  
16 or is that the promotional advertising?

17 MS. UNEMORI: I believe we charged those average  
18 advertisements to DSM spending, yes.

19 COMMISSIONER KONDO: In response to one of the  
20 questions Mr. Itomura had asked you, you had made a comment  
21 about the Company doing cost containment efforts relating to  
22 informational advertising.

23 Could you elaborate on that a little more what  
24 specific costs containment efforts has the Company undertaken  
25 relating to informational advertising.



1 MS. UNEMORI: Commissioner Kondo, I apologize, if  
2 my statement was confusing. When I referred to cost  
3 containment overall, I was referring to the Company's overall  
4 efforts with respect to cost containment and our recognition  
5 that these are difficult economic times; but, with respect to  
6 advertising expenditures, we did have a review of the amount  
7 we had budgeted and planned to spend, but we felt that it was  
8 important, after reflecting on it, to continue to invest that  
9 money in the public education campaign that we had planned,  
10 because it was actually fundamental; ironically, even more  
11 important, given the economic conditions that we're in, in  
12 order to get out of some of what is causing this difficulty  
13 for us, we need to achieve those clean energy goals, and we  
14 need to, even more so, make the steps that people can take to  
15 manage their own energy bills top of mind; especially, in  
16 tough times like now.

17 COMMISSIONER KONDO: From your answer, is it true  
18 then or do I understand what you're saying to be that after  
19 review of the budgeted amount, no adjustments were made by the  
20 Company relating to the information or advertising budget?

21 Is that what I understood you to say?

22 MS. UNEMORI: That's correct.

23 COMMISSIONER KONDO: Okay. Thank you.

24 I know you made the comment about both in your  
25 written testimony as well as your oral testimony about the

1 results from the informational advertising. I know you quoted  
2 some percentage figures.

3 Does the Company have any information about the  
4 actual energy savings that resulted from the advertising  
5 efforts, not just the awareness by the consumer, but has the  
6 Company done a further analysis as to what the actual dollars  
7 savings that the consumer has undertaken because of the  
8 advertising?

9 MS. UNEMORI: We have information on the energy  
10 savings that were achieved over the period of time in which we  
11 were conducting those programs. Those energy savings are a  
12 result of many different things that were happening during  
13 that time, the DSM programs, the RCEA program, the utility  
14 information advertising that was supplementing those efforts;  
15 and, they were all being integrated together to have a  
16 consistent campaign during this period of time.

17 In addition, in recognition also that those energy  
18 savings would reflect simply the price of fuel and how it  
19 impacted electric bills as well as the impact of the economy;  
20 so, it's very difficult to isolate out the quantitative  
21 measures that you're referring to and specifically tie them  
22 just to energy awareness campaigns.

23 We did look at that to see if there was some way if  
24 we were trying to do an example; and, one way to look at it  
25 might be that if you take a million dollars, and based on our

1 surveys, the RCEA evaluation survey found that 27 percent of  
2 customers said that as a result of seeing one of the ads they  
3 would change one CFL bulb.

4 So if you do the math and you calculate well each  
5 CFL bulb at today's electric rates would save -- it was like  
6 \$23 a year and you carry that through in terms of applying it  
7 to the number of customers that would be garnering those  
8 savings, you come out with a total savings of a million-three  
9 compared to the million invested in advertising.

10 Now, I mean, it's an attempt to try to compare two  
11 things in a quantitative way. I think there's lots of -- as I  
12 said, I think -- I don't know that that's necessarily  
13 appropriate to just isolate it like this, but it's one way to  
14 try to put the numbers in perspective; but, from an overall  
15 standpoint, as I said earlier, it's very well difficult to  
16 specifically tie quantitative demand savings and dollar  
17 savings only to an awareness program. It works in concert  
18 with many other things.

19 COMMISSIONER KONDO: Yeah, I understood you to say  
20 that about 50 percent of the folks that were surveyed had  
21 noted that or reported that they had done something  
22 differently because of the advertising that they had seen.

23 MS. UNEMORI: Yes.

24 COMMISSIONER KONDO: Was there any attempt to try  
25 to identify what they had done and to attach dollar savings to

1 those efforts?

2 MS. UNEMORI: It was definitely an attempt to  
3 identify what kinds of actions they took. And I apologize.  
4 I'm looking for the RCEA evaluation report right now. I don't  
5 believe, though, that we were able to quantify the actual  
6 dollar savings related to that.

7 COMMISSIONER KONDO: The RCEA evaluation report is  
8 a hearing exhibit -- or, I'm sorry an exhibit --

9 MR. WILLIAMS: Yes, I believe it's the response --  
10 in a response to CIR 401; is that correct?

11 MS. UNEMORI: Yes, thank you.

12 MR. WILLIAMS: Which is a voluminous response so I  
13 didn't put it in my materials.

14 MS. UNEMORI: So to answer your first question,  
15 some of the actions that people identified as taking included  
16 very simple but important steps, installing or switching out  
17 CFL -- to CFL as well as simply turning off the lights.

18 CHAIRMAN CALIBOSO: Would you please put the mike a  
19 little bit closer, please.

20 COMMISSIONER KONDO: I'm going to switch gears real  
21 quick, Ms. Unemori.

22 Mr. Itomura had referred you to page 8 of your  
23 rebuttal testimony, and he had talked to you about the other  
24 items that are listed there as being the obligation of the  
25 utility to inform the customer about.

1 Do you recall that discussion with him?

2 MS. UNEMORI: Yes, I do.

3 COMMISSIONER KONDO: When you use the word  
4 "obligation" what does that mean?

5 I don't -- I guess I'm trying to get an  
6 understanding where that obligation comes from, what level you  
7 are obligated to do that?

8 MS. UNEMORI: If you're talking about a legal  
9 obligation, no, there's not a legal obligation. Basically,  
10 it's just -- well, it was meant in a very general sense.

11 COMMISSIONER KONDO: And --

12 MS. UNEMORI: It's other type of information that  
13 they we believe is important to provide to customers.

14 COMMISSIONER KONDO: And are you currently doing  
15 this type of advertising?

16 MS. UNEMORI: Yes, we are.

17 COMMISSIONER KONDO: And what kind of media do you  
18 use to get this message?

19 MS. UNEMORI: Primarily, we use a combination of  
20 radio and print advertising.

21 COMMISSIONER KONDO: I asked this question because  
22 I don't think I've seen this type of advertising.

23 So how often does the Company do this type of  
24 advertising, in either the print, media, or through radio  
25 advertising?

1 MS. UNEMORI: Well, we do it throughout the year,  
2 but it is -- many times, often, the advertising is -- excuse  
3 me -- targeted around certain campaigns; so, it would occur  
4 during a particular time of year.

5 For example, we do metallic balloon safety  
6 advertising, run radio spots on that, and those are targeted  
7 around graduation times; especially, in the  
8 May-June timeframe, as well as late summer to catch the light  
9 summer graduation. So they're not the necessarily running all  
10 year long and try to concentrate them during times to target  
11 those efforts.

12 COMMISSIONER KONDO: I know most of the discussions  
13 that you had with Mr. Itomura was about advertising relating  
14 to energy efficiency and conservation.

15 The advertising that we're talking about here, is  
16 there a cost associated with this type of advertising that you  
17 can break apart or break out of the total amount of  
18 advertising that the Company does?

19 MS. UNEMORI: Based on our current budget, it's  
20 roughly about \$100,000 to \$120,000.

21 COMMISSIONER KONDO: And this type of advertising  
22 clearly is not advertising that you would expect SAIC to pick  
23 up. Correct?

24 MS. UNEMORI: That's correct.

25 COMMISSIONER KONDO: On the following page of your

1 testimony on page 9, you had a more detailed budget for the  
2 advertising.

3 Do you see that?

4 MS. UNEMORI: Yes.

5 COMMISSIONER KONDO: Can you give me some  
6 understanding as to on the bottom part where it says media  
7 when you say television, radio, and print, can you give me  
8 some understanding as to the number of ads you're talking  
9 about with the frequency of using these medians?

10 MS. UNEMORI: Let me think about this because we  
11 did approach it many different ways but, basically, we would  
12 be able to use -- we would plan to use that budget to that  
13 media budget, for example, for television would be enough to  
14 cover about four, four-week flights throughout the year; so,  
15 media buys that would last for four weeks, four times during  
16 the year. That's an example of how we would break that down  
17 in terms of the frequency and the duration. That's one  
18 example.

19 COMMISSIONER KONDO: And I'm not a media person, so  
20 forgive me here but, within the flight leaning forward period,  
21 you're talking that they would periodically run the  
22 commercial, for instance, or the advertising randomly during  
23 the four-week period; is that correct?

24 MS. UNEMORI: No, I wouldn't quite call it randomly  
25 because it's very targeted in terms of the time slots that we

1 buy in order to be able to achieve hitting the reach and  
2 frequency goals that we want to achieve with the advertising;  
3 so, we want to target to be able to -- well, this year, for  
4 example, well the residential customer -- the RCEA program,  
5 for example, in that case, we were targeting to reach  
6 99 percent of our target market, at least 150 times during the  
7 year, and that target market was anywhere from the age of 25  
8 to 64; so, broad and young, as well as obviously 25 to 64,  
9 younger to older. That reach and frequency is a little bit  
10 less this year because we have a lower amount of resources but  
11 it's still significant.

12 COMMISSIONER KONDO: I'm sorry for using the word  
13 "randomly," but you would, during the four-week period, the ad  
14 would repeatedly appear during the four-week period at times  
15 that during the television company that you contracted with  
16 have decided are the appropriate times to run the commercials?

17 MS. UNEMORI: We work with our advertising agency  
18 that is very experienced in identifying the appropriate time  
19 slots in which to run an ad in order to be able to reach the  
20 audience that you want to get your message out to.

21 In our case, the way we can the maximize the  
22 effectiveness of the advertising that we do is to buy slots  
23 during the news hour, as well as during prime time television  
24 shows, because, as they say in the industry, those are times  
25 where you can get the most eyeballs on your ad.



1 COMMISSIONER KONDO: And do I understand that  
2 during one of these flights it's the same advertising or the  
3 same commercial, that you don't have multiple commercials  
4 running during the same four-week period that constitutes one  
5 flight?

6 MS. UNEMORI: We may -- we may and --

7 COMMISSIONER KONDO: Our they separate flights  
8 then?

9 I mean, I understood you to say there's four  
10 forward flights and, I guess, I'm trying to understand that  
11 during one of the four-week flights, do you have multiple  
12 different types of advertising or is it one message, the same  
13 advertising that's running for the four weeks?

14 MS. UNEMORI: Well, let me clarify.

15 We may run more than one TV spot so it won't be  
16 necessarily the same TV spot. We may choose to run two during  
17 that period but they're complimentary and support each other;  
18 or, we may choose to just to get the impressions. The  
19 visibility of a new spot out, we may choose to just run that  
20 one throughout the whole four weeks.

21 COMMISSIONER KONDO: I guess I wanted to get an  
22 understanding of how the Company is working with SAIC on the  
23 advertising relating to energy efficiency.

24 Can you give me some understanding as to, you know,  
25 how the Company is working with SAIC to get the message

1 across; or, if the Company is, I guess I should start there?

2 MS. UNEMORI: As we discussed earlier, we've had  
3 some preliminary discussions with SAIC early on. Prior to the  
4 transition, we did discuss the need for a joint effort beyond  
5 even just SAIC and Hawaiian Electric to try to accomplish what  
6 we need to as a State.

7 We have been supporting SAIC in helping them with  
8 the initial objective of what they -- what our understanding  
9 is one of the important things they wanted to focus in the old  
10 stages is to start to get their brand out there, been in touch  
11 with them, ask them for their newly developed logo, which they  
12 do not have when they first started in July.

13 Once that was developed, we asked them to send us  
14 all the electronic files for that so we can start to put that  
15 on collateral as we print those things, put it on a website so  
16 it did make references to their name to help them with that  
17 initial step of establishing their brand.

18 So that's one example of what we've been doing to  
19 coordinate with them, because I don't -- you know, I do want  
20 to say it's early on. We have not had expensive -- this is  
21 not something where we made it every week and we've been  
22 coordinating. We recognized and they acknowledged at the  
23 beginning that they were going to be very focused on the  
24 transition activities to get their programs up and running,  
25 which is perfectly understandable.

1           They also needed some time to get their logo  
2 developed; and, so I don't want to overstate it and make it  
3 sound like we're huddling with them every week. It's  
4 certainly not the case, but we've been in contact with them.  
5 We certainly will need to do more.

6           In terms of the energy efficiency part of, beyond  
7 the branding part of it, among the lines of the conversation  
8 that I had with Mr. Itomura earlier, basically it's continuing  
9 to mention in the advertisements that we run now, some of the  
10 measures, the DSM measures, solar water energy, CFL, Energy  
11 Star appliances that are programs, covered by programs that  
12 they're administering. That's the extent of it at this point  
13 in time.

14           COMMISSIONER KONDO: I think you made a comment to  
15 Mr. Itomura about the importance of the message coming from  
16 the utility rather than another party for some -- I think  
17 maybe some studies that you had been aware of; is that  
18 correct?

19           MS. UNEMORI: Yes, I made reference to an EEI  
20 study, Edison Electric Institute study, a fair recent poll in  
21 which 66 percent of those responding said that they would  
22 expect to get that information from their utility.

23           COMMISSIONER KONDO: Has the Company had  
24 discussions with SAIC about allowing SAIC to use, perhaps, the  
25 Company's bill and inserting some type of advertising that

1 SAIC does that comes through the Company's bureau or some  
2 other mechanism.

3 MS. UNEMORI: We haven't had that direct -- we  
4 haven't had a conversation on that topic yet; but, we  
5 certainly would be open to that. If they want to put a bill  
6 insert in the electric bills, that seems like a perfectly  
7 appropriate mechanism to help get their information out.

8 Again, this is a joint effort. We're accountable  
9 to the energy savings that we're wanting SAIC to achieve; so,  
10 it's perfectly -- it seems perfectly appropriate.

11 COMMISSIONER KONDO: All right. Thank you.

12 CHAIRMAN CALIBOSO: Thank you, Ms. Unemori.

13 Just a few questions.

14 I understand your testimony so far about what the  
15 advertising is going to include and I just have some specific  
16 questions.

17 Would it include things like educating consumers on  
18 various initiatives that might be going on such as if it gets  
19 approved, the effect of decoupling and how that would have  
20 worked or see the availability of fee and tariffs or  
21 time-of-use rates, would it include that type of -- those  
22 types of messages?

23 MS. UNEMORI: It would be appropriate certainly to  
24 use -- (inaudible) to use utility advertising to help  
25 customers on decoupling or to make known fee and tariffs. I

1 would just say that, for example, fee and tariff, which is a  
2 very specific and targeting type of program, it's not  
3 necessarily something that you would use television for, but  
4 we may have targeted advertising to try to reach those who  
5 that's directed at. That would be one possibility.

6 CHAIRMAN CALIBOSO: What about the load control  
7 functions of the Company, is that included in what you're  
8 planning with this funding?

9 MS. UNEMORI: The residential load control programs  
10 are funded with additional funding and there's a different  
11 budget for the load control programs.

12 CHAIRMAN CALIBOSO: So it's separate from this  
13 then?

14 mr. u: Yes.

15 CHAIRMAN CALIBOSO: So you don't need this for load  
16 control outreach?

17 MS. UNEMORI: We certainly can support that  
18 additionally but there are -- I just wanted to make a point  
19 that there is additional, additional pledges set aside as for  
20 the load control programs.

21 CHAIRMAN CALIBROSO: And, I'm sorry, in the  
22 beginning you were the Vice President of Corporate Relations?

23 MS. UNEMORI: Yes.

24 CHAIRMAN CALIBOSO: Is that considered a department  
25 of the Company or a division?

1 MS. UNEMORI: It's a department, yes.

2 CHAIRMAN CALIBOSO: A department, corporate  
3 relation department?

4 MS. UNEMORI: Yes.

5 CHAIRMAN CALIBOSO: Is that right?

6 MS. UNEMORI: Yes.

7 CHAIRMAN CALIBOSO: And you fall under Mr. Alm's --

8 MS. UNEMORI: Yes.

9 CHAIRMAN CALIBOSO: -- on the organizational chart  
10 with?

11 MS. UNEMORI: Yes.

12 CHAIRMAN CALIBOSO: And you're the head of that  
13 department?

14 MS. UNEMORI: Yes, I am.

15 CHAIRMAN CALIBOSO: And -- don't look so worried.

16 (Laughter.)

17 CHAIRMAN CALIBOSO: And what would you say is the  
18 function of that department?

19 MS. UNEMORI: Our department has the responsibility  
20 for corporate communications overall; and, so that encompasses  
21 both internal and external communications, employee  
22 communications, and I won't get into all the vehicles that we  
23 used to do that.

24 In terms of external communications, that  
25 encompasses advertising, it encompasses customer communication

1 through our consumer newsletters through public relations  
2 efforts, press releases, and other activities we would do to  
3 try to gain public awareness of things that we were doing or  
4 programs that we're offering.

5 It also includes work. We support the -- we  
6 support our capital projects and some of the more major ones  
7 that have communications with community outreach leads and we  
8 work in conjunction with the other departments and public  
9 affairs.

10 We, obviously, get involved in outage  
11 communications; and, as a regular source of information when  
12 that occurs and, certainly, emergency communications, as I  
13 know you're well aware.

14 CHAIRMAN CALIBOSO: So there is no separate public  
15 relations department in the department?

16 MS. UNEMORI: No, there's not.

17 CHAIRMAN CALIBOSO: And are all expenses in your  
18 department recoverable rates or there's some that are not  
19 recoverable rates?

20 MS. UNEMORI: Our department does incur some costs  
21 that we charge below the line not to rate fares primarily --  
22 yes, so that is the case.

23 CHAIRMAN CALIBOSO: Could you categorize those  
24 types of things?

25 MS. UNEMORI: One example would be advertising that

1 we would do for image purposes; and, so that is one bucket of  
2 costs that's charged below the line. I think that's the best  
3 example that I can think of right now.

4 CHAIRMAN CALIBOSO: Would the Company have any  
5 benefit, like you said, image, public relations, benefits  
6 showing the Company is a Green Sustainable Company, would the  
7 Company have that type of benefit from this type of  
8 information advertised?

9 MS. UNEMORI: Well, that's not our primary focus.  
10 I think it would be disingenuous to suggest that if the  
11 Company is providing information that is important to our  
12 customers regarding energy efficiency, energy savings,  
13 renewable energy issues, if customers value that and the  
14 utility is providing it and, as we've discussed, they expect  
15 to hear from us on those things, that it wouldn't -- that they  
16 may not also feel better about us because we were providing  
17 it.

18 I guess I look at that as being in a way no  
19 different than the impact to our image that occurs if we have  
20 poor reliability and there are resources obviously that are  
21 directed towards helping the Company achieve that objective as  
22 well.

23 So it's hard to separate out a customer's  
24 experience with the Company in other venues and how they feel  
25 about it; so, yes, I think there is some image impact based on



1     what we -- based on our advertising even if that's not the  
2     primarily purpose of it.

3             CHAIRMAN CALIBOSO:   And a portion would be or in  
4     relation to the size of this informational budget request, how  
5     does that fit into the size of the rest of your budget, say,  
6     that was not recoverable in rates?

7             MS. UNEMORI:   Restate your question?

8             CHAIRMAN CALIBOSO:   How big is this informational  
9     advertising budget that you're requesting here?

10            How does that compare with the size of your budget  
11     that is not recoverable in rates?

12            MS. UNEMORI:   The budget for the amount that's not  
13     recoverable in rates is half a million and now we're  
14     requesting recoverables rates of 1.1 million.

15            CHAIRMAN CALIBOSO:   So your total budget is about  
16     1.6 million roughly?

17            MS. UNEMORI:   Yes.

18            CHAIRMAN CALIBOSO:   Okay.   Thank you.

19            Commission Kondo?

20            COMMISSIONER KONDO:   I'm sorry, I have one more  
21     question.

22            I understood that the Consumer Advocate had  
23     suggested to track and regulate some of these expenses that,  
24     perhaps, that we should look at a surcharge mechanism, maybe  
25     the DSM surcharge; and I understood that, from your testimony,

1 that you didn't like that idea.

2 Can you explain to me what's wrong with that?

3 MS. UNEMORI: I don't -- if I -- I don't -- if I  
4 gave the impression that we did not like the idea of a  
5 surcharge, I apologize.

6 COMMISSIONER KONDO: And I'm actually looking at  
7 page 15 of your testimony, if that would help you.

8 MS. UNEMORI: Well, I think our first position  
9 would be that we believe that it is a basic fundamental  
10 responsibility of the Company and it is appropriate to  
11 recovery it in base rate. If the Commission felt that the  
12 portion of advertising resources should be better recovered  
13 through a surcharge, I believe; and, I'm sorry, I don't have  
14 the reference around my fingertips; but, in a response to an  
15 IR, were asked that question by the Consumer Advocate. We  
16 said we would be open to that as well.

17 Although, fundamentally, we do believe that this  
18 responsibility is part and parcel of our job and what we need  
19 to do every day in filling our responsibilities to our  
20 customers in the same way that all the other activities are to  
21 run the power plants and to keep the lights on.

22 I mean, basically, we've got many responsibilities,  
23 but there's -- you have the responsibility for reliability, we  
24 have a fundamental responsibility to carrying out State energy  
25 policies; so, these resources are, sort, of integral to our

1 public utility responsibilities; so, we believe that the  
2 case -- that it's most appropriate to recover those in base  
3 rates.

4 COMMISSIONER KONDO: That said, if the Company  
5 doesn't have an objection, should the Commission feel that  
6 it's more appropriate to do it through a surcharge, you have  
7 to recover your surcharge. That's what I understood you to  
8 say. Right?

9 MS. UNEMORI: Correct.

10 COMMISSIONER KONDO: Okay. Thank you, Ms. Unemori.  
11 Any redirect, Mr. Williams?

12 MR. WILLIAMS: No redirect, Mr. Chairman.

13 CHAIRMAN CALIBOSO: Okay. Your next witness will  
14 be Mr. Hee, but it's about time we broke for lunch.

15 So we will recess for an hour-and-a half and return  
16 at 2:15.

17 We are in recess.

18 (Whereupon, at 12:48 p.m., a luncheon recess was  
19 taken, and the proceedings resumed at 2:17 pm., this same  
20 day.)

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1 A F T E R N O O N P R O C E E D I N G S

2 CHAIRMAN CALIBOSO: Good afternoon.

3 This hearing is reconvened and we're continuing  
4 with information on advertising that's a disputed issue.

5 Mr. Williams, your next witness.

6 MR. WILLIAMS: Thank you, Mr. Chairman.

7 The next witness is Alan Hee.

8 DIRECT EXAMINATION

9 BY MR. WILLIAMS:

10 Q. Mr. Hee, would you please state your name and  
11 position?

12 A. Good afternoon, Chair, good afternoon  
13 Commissioners.

14 My name is Alan Hee. I'm the Manager of the Energy  
15 Services Department.

16 Q. Did you sponsor HECO T-10 in this document?

17 A. Yes, I did.

18 Q. Does that complete your oral testimony?

19 A. Yes, it does.

20 MR. WILLIAMS: Mr. Chairman the witness is  
21 available for questions.

22 CHAIRMAN CALIBOSO: Thank you.

23 Mr. Itomura?

24 MR. ITOMURA: Thank you, Chair.

25 CROSS-EXAMINATION

1 BY MR. ITOMURA:

2 Q. Good afternoon, Mr. Hee.

3 A. Good afternoon.

4 Q. Mr. Hee, are familiar with CA's Exhibit  
5 Schedule-C21?

6 That's parts of our witness' testimony,  
7 Mr. Brosch's testimony.

8 Also, I have copies to provide so you don't have to  
9 go and pick those up. I also brought copies for the  
10 Commission as well.

11 And the exhibit would be Exhibit CA-101, Schedule  
12 C-21.

13 A. I have it.

14 Q. Okay. This shows the Company's historical nonlabor  
15 expenses for informational advertising ranging from 188,000 in  
16 2006 to 240,000 in 2007, and 195,000 in 2008 with preference  
17 being to HECO's response to CA-IR-416, part E; is that  
18 correct?

19 A. Yes.

20 Q. Referencing the response to CA-IR-416-E, do you  
21 have that available?

22 A. Yes, I do.

23 Q. I'd just like to go through this exhibit, and this  
24 is HECO's response part E, CA-IR-416. There's a line item  
25 captioned Residential Customer with some dollar amounts for

1 the four historical years.

2 There are three lines labeled DSM, RDLLC -- RDLC  
3 and utility advertising added to the residential customer  
4 total shown in the top line.

5 A. Subject to check, yes, I would assume it is.

6 Q. And there's a DSM line indicating that the amount  
7 spent by HECO in these years to promote residential DSM  
8 programs for which the costs were recovered by the Company  
9 through the DSM surcharge -- wait, hang on a second.

10 Let me rephrase that.

11 The DSM line indicating the amount spent by HECO in  
12 these years, you confirmed these costs were recovered by the  
13 Company through the DSM surcharge?

14 A. That is correct.

15 Q. So the public benefits fund, the party  
16 administrator took over residential DSM programs, would this  
17 spending on DSM advertising no longer be incurred by HECO?

18 A. Yes, that is correct. These amounts were for the  
19 energy efficiency programs and because the energy efficiency  
20 programs were transferred to the third-party administrator as  
21 of July 1, 2009, HECO will no longer be incurring advertising  
22 for energy efficiency programs.

23 Q. The amount shown as RDLC relate to Residential  
24 Direct Load Control?

25 A. Yes.

1 Q. Will HECO continue to incur these advertising costs  
2 and recover them through its IRP DSM surcharge mechanism?

3 A. No, the RDLC advertising expenses are currently  
4 being recovered through base rates and we have proposed in  
5 this rate case that they continue to be recovered through base  
6 rates.

7 Q. In other words, the amount shown at utility  
8 advertising meant to be the amounts HECO incurred from  
9 residential conservation that were not recovered through a  
10 surcharge but instead base rate?

11 A. My understanding is that the utility advertising  
12 shown here is the informational advertising piece, which  
13 excludes the DSM-related advertising; therefore, these amounts  
14 are being recovered through base rates.

15 Q. Going beyond the residential category, are the  
16 amounts shown as commercial DSM intended to promote commercial  
17 DSM programs which are now under third-party administration?

18 A. Yes, they are.

19 Q. For RCEA was this the Residential Customer Energy  
20 Awareness program provided -- that provided HECO with about  
21 1.7 million per year in advertising funding throughout the IRP  
22 DSM surcharge?

23 A. Yes, that's correct.

24 Q. On page 53 of your testimony at line 5 are you  
25 comparing the proposed rates -- I mean the proposed test year

1 expenses of \$1.48 million to the 2007 expenses of 650,000?

2 A. Could I ask you to give me a cite, please?

3 Q. I'm sorry. Page 53 of your direct testimony,  
4 line 5.

5 A. Yes, I see it.

6 Q. Can you explain how the 650 (sic) relates to the  
7 1.1 million?

8 COMMISSIONER KONDO: And for the record, that's on  
9 line 6. Correct?

10 MR. ITOMURA: I'm sorry, I'm on the wrong page.

11 COMMISSIONER KONDO: You were asking about line 5,  
12 though, on the record --

13 BY MR. ITOMURA:

14 Q. Oh, starting on line 5 and yes 650 (sic) is on line  
15 6. Correct?

16 A. I'm sorry, could you ask that question again,  
17 please.

18 Q. Looking at the table that I referred to you earlier  
19 on CA-IR-416, part E, is there a line item there that relates  
20 to the 650,000 referenced in on page 53 of your testimony,  
21 line 6?

22 A. Yes, I think the amount is the 642,000 of utility  
23 advertising and C-IR-416, part E is the \$650,000 that is  
24 identified in my testimony on page 53 on line 6.

25 Q. Okay, thank you.



1           If you jump forward to page 56 of your testimony,  
2 line 19, you're asked how much will be spent in advertising in  
3 2008, and you reference the advertising amount approved in the  
4 Company's last interim rate order from 2007 test year, and you  
5 state on line 22, The Company plans to spend a 174,000 on  
6 informational advertising charged to O&M account. Correct?

7           A. Yes, that's correct.

8           Q. Is this 2008 plan spending amount comparable to the  
9 194,703 amount as was spent per your response to CA-IR-416-E?

10          A. Yes, it is.

11          Q. Would you agree that the 1.1 million for  
12 informational advertising requested by HECO in test years is  
13 almost \$1 million more than actually spent by HECO in utility  
14 advertising in 2006 and in 2008 as referenced in the IR-416?

15          A. Yes, it is. And it reflects the fact that the RCEA  
16 amounts of advertising that were shown, that are currently  
17 shown in CA-IR-416, along the road that's indicated RCEA, is  
18 no longer going to be able through the Company to provide the  
19 energy efficiency and conservation messages that we believe  
20 the utility should and has a responsibility for providing.

21               There was a question earlier in which it was asked  
22 whether or not the utility has a responsibility or I think the  
23 question was has an obligation to perform those duties; and, I  
24 did want to point out in my testimony HECO T-10, page 2, lines  
25 10 through 16, in which NERA has identified a NERA account or

1 block of accounts 911. And if I may read this, account 911 is  
2 advertising activities which primarily convey concrete  
3 information as to what utility urges or suggest customers  
4 should do using electric services to protect health and  
5 safety, promote environmental protection, utilize electric  
6 equipment safety and economically and conserve electric  
7 energy.

8 Included also in this account are advertising  
9 activities relating to actions by the electric utility which  
10 beared directly on the provision of service to the customer.

11 So providing energy and conservation information  
12 has been a traditional role of the utility and is recognized  
13 by NERA by giving it an account block for those expenses.

14 Q. Mr. Hee you acknowledged that the Consumer  
15 Advocate's position is still out HECO recovery of 342,000.  
16 Correct?

17 A. Yes.

18 Q. Do you also agree that this is the three-year  
19 average of the amount shown as utility advertising in  
20 CA-IR 460 -- in your response to CA-IR-416-E?

21 A. Yes, it is. And, in some cases, it looks like a  
22 three-year average is a reasonable basis for looking forward.  
23 In other cases, it may not be as you useful or as appropriate.

24 In this particular case, we maintained that there  
25 is a need to increase the amount of informational advertising

1 beyond what the three-year average indicates; and, those  
2 reasons for needing to increase informational advertising is  
3 the fact that we have an obligation, as we have indicated  
4 before, that high prices in year 2008 and prices which we  
5 believe will remain high, maybe not as high as 2008, creates a  
6 need on the part of our customers to understand how is it that  
7 they can respond to those prices by installing and taking  
8 behavior actions to reduce their electric bill.

9 Q. Let me direct you to the bottom of page 53 of your  
10 testimony, line 24. There you state that given that HECO will  
11 no longer have RCEA program funding beginning in 2009, the  
12 issue of funding for a needed energy efficiency and  
13 conservation advertising is no longer moot for this rate case  
14 correct?

15 A. That's right.

16 Q. If the RCEA program had been continued by the  
17 Commission, instead of being terminated with HECO, not need as  
18 much base rate advertising expenses you proposed for the test  
19 year?

20 A. Of course, that's a hypothetical situation, but we  
21 had responded to a question similar to that in correspondence  
22 to CA-IR-233. CA-IR-233, page 5, we indicate that in the  
23 event the Commission approves the continuation of the RCEA  
24 program to be administered by Hawaiian Electric, the amount  
25 needed in base rates, while the RCEA is authorized, will

1 decrease.

2 Now the amount of decrease will depend on the  
3 amount authorized in the RCEA program approval.

4 Q. On the top of the next page, page 54, you provide  
5 that the Company still has the responsibility to continue to  
6 aggressively increase customer awareness of energy efficiency  
7 and conservation measures, importance of making such action an  
8 every day habit. Correct?

9 A. Yes.

10 Q. Is HECO asking the Commission to determine whether  
11 or not HECO ratepayers should fund an aggressive media  
12 campaign to increase customer awareness of energy efficiency?

13 A. Could you ask that question again, please?

14 Q. Simply put, is HECO's position that the Commission  
15 should determine whether or not HECO ratepayers should fund an  
16 aggressive mass media campaign to increase customer awareness  
17 of energy efficiency?

18 A. Yes, we maintain that that is a need and a  
19 responsibility of the electric utility, and we are requesting  
20 Commission approval for us to pursue that informational  
21 advertising.

22 Q. That being true or your understanding if your  
23 statement is true, what is your understanding of why the  
24 Commission terminated your RCEA funding?

25 A. The language in the order which terminated the RCEA

1 funding and discussed that particular issue was relatively  
2 brief. I believe what it did say was that it was going to  
3 consider whether or not the Commission would fund the  
4 third-party administrator for efforts such as this.

5 Q. Okay. I'm going to refer you to the PUC's order in  
6 Docket No. 2007-0341. We've brought copies of this; and, if  
7 the Commission will take notice of its own order, we can  
8 provide those copies; specifically, starting with Panel 3.

9 At page 3 there's an indented quotation attributed  
10 to HECO. It starts with HECO maintains.

11 Could you indulge me. Could you read that passage  
12 into the record?

13 A. Yes. HECO maintains that it has a responsibility  
14 to communicating with its customers about energy efficiency  
15 and related issues regardless of whether or not the DSM energy  
16 efficiency programs are transferred to, in quotes, the PBF  
17 Administrator. Therefore --

18 MR. WILLIAMS: No, the quotes end.

19 A. -- HECO requests approval of the annual budget to  
20 conduct the RCEA program throughout 2009 even if the DSM  
21 energy efficiency programs are transferred goes to the PBF  
22 Administrator.

23 Q. Thank you.

24 Going to page 5 of the order. This reflects a 2009  
25 budget data from HECO's M&E report and it includes

1     \$1.7 million for RCEA.

2             Do you see that? Is that correct?

3             A. Yes, I see that.

4             Q. Why does the RCEA program show zero amounts for  
5 megawatt hour and megawatt goes in the tables on pages 6 and 7  
6 following that page 7 of that order?

7             A. I believe these numbers are from our own M&E report  
8 dated September 30th, 2008, and we had decided in that M&E  
9 report not to claim any mid one-hour impacts for the RCEA  
10 program. That's not to say that there are none, but we  
11 decided to not claim any of those impacts.

12            Q. If I can direct you to page 9 of the order.

13                     If you could, again, read into the record the last  
14 paragraph starting with Upon review.

15            A. Upon review, the Commission denies HECO's request  
16 to continue its RCEA program after 2008. The RCEA is a pilot  
17 program, in part, due to the anticipated transition of HECO's  
18 companies DSM programs to the PBF Administrator. The PBF  
19 Administrator will be in place during much of 2009 and the  
20 Commission, therefore, declines to continue HECO's RCEA  
21 program.

22                     And then there's a note 13. And note 13 is The  
23 Commission notes that moneys which would have gone to HECO for  
24 the RCEA program for 2009 may be utilized by some similar  
25 program proposed by the third-party administrator.

1           Q.    So are you aware of any reason why the Commission  
2 would be unable to consider and approve a new RCEA program or  
3 its equivalent that might be proposed by the PBF  
4 Administrator?

5           A.    I don't know the nature of the contractual  
6 relationship between the Commission and the third-party  
7 administrator. However, based on the annual plan that was, I  
8 think, in Exhibit 2, provided by the Consumer Advocate, we  
9 find that the amount of advertising expense for both the  
10 residential and the commercial programs for a 28-month period  
11 is about \$900,000. We are also aware, from reading the annual  
12 plan, that SCIC has several objectives for the use of that  
13 advertising.

14                Number one is to create a new brand. Number two is  
15 to drive customers to its programs. And number three is to  
16 create an awareness of energy efficiency. If we would  
17 maintain that \$900,000 is certainly not enough to do a  
18 branding effort and possibly not even in the amount of time  
19 that it has.

20                It's my understanding that branding efforts are  
21 very costly and take a lot of time. And, therefore, if they  
22 were, in fact, to pursue the branding effort, that there would  
23 not be very much money left to do the educational portions of  
24 their plan.

25                So, as a result of that, we would maintain that

1 Hawaiian Electric needs to provide that portion of the  
2 objective, which is our objective, is to provide customers  
3 with information about energy conservation as well as a level  
4 of energy awareness to assist the electric utility, the  
5 customers and the community the ability to move towards what I  
6 think we all want to do, which is in a state of our energy  
7 infrastructure in which we can move toward renewable energy  
8 and make this community much more oil independent and energy  
9 secure.

10 Q. Just for clarification, your answer appears to  
11 contradict Ms. Unemori's response earlier today that HECO did  
12 not have an opinion on whether there was sufficient funds for  
13 SAIC advertising expense.

14 Is it your position now that HECO does have an  
15 opinion on the sufficiency of funds provided to SAIC for this  
16 effort?

17 MR. WILLIAMS: I object. I think that misstates  
18 the prior testimony which was limited to the sufficiency of  
19 funds for SAIC to achieve its objectives as opposed to the  
20 overall sufficiency of funds to achieve overall goals.

21 CHAIRMAN CALIBOSO: Can you restate the question  
22 just to -- restate the question without trying to  
23 recharacterize the prior testimony. You'll have time to make  
24 argument later on if you see an inconsistency.

25 MR. ITOMURA: I was just seeking clarification.



1 I'll move on.

2 BY MR. ITOMURA:

3 Q. Going back to your testimony starting at page 52,  
4 line 17, which speaks of informing customers about safety and  
5 of rights to submit damage claims and customer programs and  
6 services.

7 A. Could you give me the cite again, please?

8 Q. Page 52, line 17.

9 COMMISSIONER KONDO: This is Mr. Hee's testimony?

10 MR. ITOMURA: Yes.

11 BY MR. ITOMURA:

12 Q. Has the Company always had a need to provide a  
13 certain amount of safety in customer information advertising  
14 even before it commenced the RCAO awareness campaign?

15 A. Yes, we have always felt that we have an obligation  
16 to have safety messages from the Company, yes.

17 Q. Do HECO employees already invest significant time  
18 in personal communications with interested groups in the  
19 community served by the Company?

20 A. We are certainly out in the community often at  
21 community activities, fairs, workshops, et cetera; yes, we  
22 have been out there.

23 Q. Does HECO currently use bill inserts to provide  
24 information to its customers at relatively low costs?

25 A. I'm sorry, I don't know the actual costs of the

1 bill inserts, but, yes, we do, in fact have bill inserts every  
2 month.

3 Q. Does HECO maintain a website to provide information  
4 to its customers?

5 A. Yes, we do.

6 Q. So, in your opinion, has HECO failed to meet its  
7 responsibilities to inform the public about energy safety  
8 rates, submit damage claims and the availability of customer  
9 programs and services for the years 2006, 2007, and 2008?

10 A. Absolutely, not. What we are suggesting is that  
11 there needs be an increase in the amount of advertising that  
12 we need to conduct going forward as a result of, as I said  
13 before, the need by our customers to respond to the higher  
14 electric prices that result from the higher fuel prices and  
15 because of the increased need to, and state policy, which it  
16 has been driving us toward a more oil-dependent community.

17 Q. Okay. At this time, I'd like to refer to another  
18 exhibit to point to the witness and the commissioners to CA-IR  
19 I'm sorry, CA-RIR-6, Attach 1.

20 One we have copies available. I'm sorry, this is  
21 in the record, not a separate exhibit.

22 A. I have it.

23 Q. Does Attachment 1 show the amounts HECO has spent  
24 on the listed categories of informational advertising in each  
25 of the years throughout 2005 and 2008?

1           A.    Attachment 1 shows the informational air time  
2 expenses for topics other than energy efficiency, yes, that's  
3 correct.

4           Q.    Does HECO typically design its advertising programs  
5 to efficiently meet its needs to communicate with customers?

6           A.    Yes, we do.

7           Q.    So is HECO's historical advertising on these  
8 messages been adequate to meet the Company's responsibilities  
9 to inform the public about these topics?

10          A.    Yes, it has. The amounts, of course, vary from  
11 year to year as we see issues in the community; but, yes, we  
12 believe that they have been adequate.

13          MR. ITOMURA: All right. I don't have any more  
14 questions for Mr. Hee.

15          CHAIRMAN CALIBOSO: Thank you.

16          Mr. McCormick?

17          MR. MCCORMICK: No questions from the Department of  
18 Defense?

19          CHAIRMAN CALIBOSO: Mr. Kondo?

20          COMMISSIONER KONDO: I have a question and it's  
21 just because I'm curious.

22                 Given the high price of electricity that we  
23 experienced in the summer of 2008, doesn't that actually cause  
24 customers to be more motivated to figure out ways to lower  
25 their electric consumption or lower their electricity bill and

1 will motivate them to do more on their own, go to your website  
2 and do other things and; therefore, doesn't that necessitate,  
3 perhaps, less informational advertising expense rather than in  
4 an environment where electricity is affordable and we're just  
5 trying ween people off of electricity or the dependence on  
6 fossil fuel generated electricity.

7 MR. HEE: I understand what you're saying. I  
8 believe it's a matter of supply and demand because there's, as  
9 a result of the higher prices in the summer of 2008, I believe  
10 that the demand for knowledge about ways to decrease their  
11 electricity bill would increase and, therefore, we have a  
12 responsibility to assist our customers with their need and  
13 their want to understand how is it that they can reduce their  
14 electricity bill, where should they go and what are the other  
15 alternatives that they can implement in order to reduce their  
16 electricity bill.

17 So I really maintain that it actually has increased  
18 the need for us to respond to the need of our customers for  
19 that kind of information.

20 COMMISSIONER KONDO: I do agree that the demand for  
21 knowledge increases. I guess really the bottomline part of my  
22 question is, therefore, can't the Company find cheaper ways to  
23 do informational advertising than they might otherwise need to  
24 do in a different environment?

25 MR. HEE: There are a lot of different avenues that

1 the utility uses to provide information and we have in place,  
2 HECO.com. We have our inserts for bills; so, we've covered  
3 those kinds of baseline types of messages in ways to  
4 communicate with our customers.

5 I think to provide our customers with the  
6 information that they are looking for we do have to step up  
7 from that level of communication to provide what those  
8 customers are looking for.

9 COMMISSIONER KONDO: All right. Thank you.

10 MR. HEE: Yeah.

11 CHAIRMAN CALIBOSO: All right. Thank you.

12 Any redirect, Mr. Williams?

13 MR. WILLIAMS: No redirect, Mr. Chairman.

14 CHAIRMAN CALIBOSO: Thank you. Next witness.

15 MR. WILLIAMS: Our next witness is Mr. Robert Alm.

16 DIRECT EXAMINATION

17 BY MR. WILLIAMS:

18 Q. Mr. Alm, would you please state your name and  
19 position?

20 A. Robert Alm, Executive Vice President.

21 MS. HIGASHI: You need to use the mike.

22 A. Robert Alm, Executive Vice President.

23 Q. Mr. Alm, you're the sponsor of several testimonies  
24 in this docket, including HECO T-1, HECO RT-1 and HECO ST-1;  
25 is that correct?

1 A. That's correct.

2 Q. And your RT-1 testimony is the one that addresses  
3 informational advertising primarily?

4 A. Yes, that's correct.

5 Q. Mr. Alm, do you have any comments?

6 A. Yes, I do. I wanted to address a couple of things  
7 significantly since they've come up today.

8 One is that we don't view our informational  
9 advertising request in RCA as being coterminous. We don't  
10 think they're really the same thing. There are overlaps; but,  
11 if given the information, advertising money should clearly do  
12 some things that we would have done under a pure RCA type  
13 environment but we would do a lot more.

14 When we had our CA, we moved our efforts to  
15 significantly to those specific items that customers could do  
16 individually; and, to the point that Commissioner Kondo  
17 specifically referenced, as bills began to rise in 2007;  
18 particularly, in 2008, consumers wanted to do different things  
19 but the question is what do they do.

20 I think one of the examples we've used a lot is the  
21 fact that on Oahu in 2006, the public bought 60,000 CFLs. It  
22 was in 2007 that you say the heavy advertising, the so-called  
23 Jade Moon. CFL advertising at that year went from 60,000 to  
24 700,000 CFLs and the next go to a million CFLs.

25 Now part of that is the coupons that were in the

1 paper and part of that, in our view, is the power of  
2 television advertising. The reality is if you do a good job  
3 of getting it in people's minds it is significant how much  
4 behavior you can change. That's why there's so much  
5 advertising dollars spent.

6           So if we talk about other things that we want to do  
7 beyond that, you know, one is clearly the issue of costs and  
8 we have a set of ads that have been on TV recently where we're  
9 talking about the fact that a change over to renewable energy  
10 will cause some degree of cost increases, that this is not  
11 free and that we need to be ready to make an investment in  
12 order to transition to a different kind of economy.

13           There are way too many people out there who walk  
14 around saying renewable energy is free; and, while it's true  
15 that there is a fuel cost for wind or sun or wave, the reality  
16 is collecting that and getting it into the grid is not free  
17 and there is an expense that we will undertake as a community.

18           I do think, and this was to the Chairman's point  
19 earlier, that we do have a responsibility to somehow talk to  
20 the public about what this new compact means as it begins to  
21 take shape.

22           Fee and tariffs, decoupling, surcharges, smart  
23 meters, all kinds of thing that have not yet been either fully  
24 completed, though, we got the schedule today on the fee and  
25 tariff; so, I think, there are some much stronger deadlines

1 now in when those pieces will take place, but there is  
2 something new that's going to happen for the public and it  
3 doesn't need to be discussed with them.

4 A third part of this is, and we've done these  
5 before and we will undoubtedly continue with them, is that we  
6 all have to be a part of this and, in particular, we have to  
7 take on this newbie-ism notion that has been very difficult  
8 for developers of renewable energy in Hawaii over the years.

9 I think, just as an example, First Wind has done a  
10 terrific job in the Kahuku area of working with the community,  
11 but the reality is there's opposition arising in Kahuku, not  
12 because of what they did, but because the second wind farm  
13 developer, who has come along, and tried to deal with this  
14 through the media and done a fairly poor job of it, we have  
15 tried in some earlier advertising, and will go back to it, to  
16 deal with the notion that we all have to take on a piece of  
17 this, including the look of wind farms and solar fields and  
18 others if we're actually going to get Hawaii off of oil.

19 I do think that we believe that maybe less so  
20 energy efficiency but both energy efficiency and load  
21 management are not only the kuliana of SCIC. That we all have  
22 a role to play there.

23 The issues like phantom loads and the different  
24 kind of shower heads and turning off lights get at much the  
25 same issues but they are load management issues.



1           TOU is a load management issue. Load interruption,  
2 the energy scout programs are load management issues. Some of  
3 those have some specific dollars attached to them, but a lot  
4 them, specifically in conservation, do not. And I think part  
5 of it is, and we try to emphasize this, if you'll look at them  
6 totally in isolation and add up isolated dollars for each  
7 device, there still has to be some advertising-ness to the  
8 attitude of the overall frame that we have of citizens.

9           And then, I think, the other thing that we have run  
10 into at our level and certainly while we've been out talking  
11 to the public, is the public still had some doubt as to  
12 whether it's really possible to get off oil; that for all the  
13 stuff that's talked about that there still is a real question  
14 in a lot of people's mind as to whether this is all worth it  
15 for Hawaii.

16           It is and we believe it strongly is, a portion of  
17 our advertising has been strongly directed at the idea that we  
18 can do significant amounts of wind in Hawaii. We can do lots  
19 of solar. We can get energy from the ocean. We get energy  
20 from the biofuels.

21           And that somewhere, you know, those kinds of  
22 messages are pretty important to the overall compact. You  
23 know, I mean other people really want to do this too. I mean,  
24 you know, as Department of Business Economic Development is  
25 trying to stake out a substantial role in doing it, and I

1 appreciate what they're trying to; but, I also think that, you  
2 know, there is a view that comes from being in the business  
3 we're in and the way that we do this business and part of that  
4 is that this can't all fall on the ratepayer, you know, there  
5 is currently a significant move, I think, in a lot of quarters  
6 to simply feel that somehow this can all somehow land on  
7 ratepayer bill and that that really is going to be okay and  
8 that nobody has to face the political consequences of sharing  
9 it on a taxpayer bill.

10 I don't think that's true, but I think there is an  
11 amount of discussion that needs to take place in the public to  
12 get the public strongly enough in support of this that you  
13 could actually get taxpayer resources brought to this.

14 Again, it can be done by other people than. Us I  
15 just think the reality is we know how to do this. And if you  
16 look at things like the Jade Mood ads and the surveys, they've  
17 come back. We actually do it pretty well. And a lot of the  
18 credit goes to the advertising agency and to Jade Moon but the  
19 reality is we are doing it.

20 So, you know, we respect the Commission's decision  
21 to take RCEA away to work directly with SAIC and the public  
22 benefits fund administrator on that portion that's  
23 specifically related to energy efficiency advertising; but,  
24 again, we believe that there still remains a broad range of  
25 advertising that touches on that but touches on really the

1 challenges we face overall, as a Company, that we still need  
2 to go forward with and that's why we prosed this, even without  
3 having the RCEA advertising.

4 Thank you.

5 MR. WILLIAMS: Mr. Chairman, Mr. Alm is available  
6 for questioning.

7 CHAIRMAN CALIBOSO: Thank you.

8 Mr. Itomura?

9 MR. ITOMURA: Well, at the outset, the Consumer  
10 Advocate would like the Commission to consider that, perhaps,  
11 Mr. Alm may have gone beyond the scope of his testimony beyond  
12 the scope of a summary.

13 CHAIRMAN CALIBOSO: Thank you. We'll take note of  
14 that. Thank you.

15 MR. ITOMURA: Anyway.

16 CROSS-EXAMINATION

17 BY MR. ITOMURA:

18 Q. Mr. Alm, good afternoon.

19 A. Good afternoon.

20 Q. On page 47 you characterize your testimony as  
21 providing policy reasons for supporting the need for the  
22 Company's customer informational advertising. Correct?

23 A. Correct.

24 Q. On page 48 you discussed RPS requirements that HECO  
25 is held responsible for. And, specifically, at line 19 you

1 reference a penalty of \$20 for every megawatt per hour that  
2 the electrical utilities deficient under the Hawaii RPS law.  
3 Correct?

4 A. Correct.

5 Q. So is it our understanding that this penalty  
6 requires a measurement of megawatt per hour that can be  
7 considered renewable and that DSM programs and savings will  
8 count towards meeting the RPS?

9 A. Under Hawaii law, they do until the 2015  
10 measurement and then they do not.

11 Q. Should HECO be responsible if the PDF Administrator  
12 fails in meeting is DSM goals?

13 A. Well, we'll be responsible for RPS. That's very  
14 clear.

15 Q. Is it your understanding that the savings impacts  
16 arising directly from HECO's informational advertisings can be  
17 quantifiably measured than the megawatt savings?

18 A. This goes all the way back to the RCA docket when I  
19 specifically asked, including, I believe, by the Chair  
20 directly, are we willing to state a specific number that we  
21 would relate solely to advertising, and we said no.

22 And that's carried through in the way we measure  
23 and the charts you had, Mr. Hee walked through, we are  
24 unwilling to saying that there's a specific megawatt piece you  
25 can attribute solely to advertising.

1 Q. Mr. Alm, on page 49 line 12 you reference Act 234  
2 impacting greenhouse gas emissions.

3 A. That's right.

4 Q. Will HECO be able to count any specific amounts of  
5 megawatts savings for purposes of compliance with that Act 234  
6 as a direct and sole result of the amounts spent by HECO on  
7 informational advertising?

8 A. We will be able to relate it directly, again, I  
9 would have the same answer. We have never felt that we could  
10 specifically do a one-to-one connection.

11 Q. On page 50 of your testimony, again, this is  
12 HECO-RT1, line 16. You discuss an evaluation report for the  
13 Residential Customer Energy Awareness Program and said found  
14 at 94 percent of Oahu residents surveyed recalled at least one  
15 of six messages or advertising element; is this correct?

16 A. Yes.

17 Q. Is this the same RCA program that the Commission  
18 ordered to be terminated?

19 A. Yes.

20 Q. So was this evaluation report you mentioned also  
21 presented to the Commission in Docket No. 2007-0341?

22 A. I'm not sure. I think so.

23 Q. Let me go to CA-IR-401, Attachment 1.

24 We have copies so you don't have to go digging  
25 through it.

1 I believe you may have page 1 with you.

2 Would you agree that Attachment 1 of this IR  
3 contains copies of materials that were submitted to the  
4 Commission in Docket No. 2007-0341 as indicated on page 1?

5 A. I believe so, yes, yes.

6 Q. Do you have -- do you also have page 5?

7 A. Yes.

8 Q. Is the first value in that table captioned recall  
9 of six messages advertising elements from Hawaiian electric in  
10 the amount of 93.8 percent --

11 A. Yes.

12 Q. -- in Section B?

13 A. Yes.

14 Q. Okay. Is that what you were referencing to in your  
15 testimony as almost 94 percent at page 50 of your rebuttal  
16 testimony?

17 A. Yes.

18 Q. I'm sorry, was that a yes?

19 A. Yes.

20 Q. If you go onto page 14 of Attachment 1 would it be  
21 fair to say that this study was based upon a survey of three  
22 waves of telephone calls placed randomly to about 400  
23 customers in each wave?

24 A. That's what it says 401, 403.

25 Q. Therefore, in your opinion, is this survey any more

1 compelling now than when was it submitted and considered by  
2 the Commission Docket 2007-0341 when the Commission ordered  
3 that the RCEA program be terminated?

4 A. I'm not sure I understand what your use of the word  
5 "compelling" is. The Commission didn't say we failed. The  
6 Commission said there's a new public benefits administrator  
7 and we're going to work with them on this. I didn't get any  
8 sense that the Commission thought we did a poor job or that  
9 this didn't have compelling evidence of the value of the  
10 program. It said it was going to switch with work put on it.

11 Q. I'm referring back to your comment regarding the  
12 need to demonstrate RPS compliance to avoid  
13 20-dollar-per-megawatt-hour penalties.

14 Does the Attachment 1 identify in the accounting  
15 for how many megawatts hours were saved due to the RCEA  
16 program?

17 A. I don't see. And in what was handed to me, I don't  
18 have the entire file, but I don't believe so. I don't think  
19 we've done that.

20 Q. Okay. Referring back to your testimony on page 52,  
21 it's lines 5 through 13, express your concern about the  
22 specific energy efficiency achievements committed to by the  
23 PBF Administrator; is that correct?

24 A. Yes.

25 Q. Is HECO a party to the contract between the

1 Commission and the PBF Administrator?

2 A. I believe our only role is we're on the committee,  
3 the advisor committee, whatever has been established.

4 Q. Does HECO's three tiers have any financial  
5 responsibility to pay for advertising to help the PDF  
6 Administrator meet its goals?

7 A. I believe our ratepayers do on the benefits fund  
8 chart.

9 Q. Does HECO specifically have a financial  
10 responsibility to pay for advertising to help the PBF  
11 Administrator meet its goals?

12 A. We do have a responsibility to do so.

13 Q. Has the Commission provided in any order that HECO  
14 should expend funds on energy efficiency awareness advertising  
15 so that the PBF Administrator will have an easier time  
16 achieving its goals?

17 A. I don't believe the Commission has ordered us to do  
18 that, no.

19 Q. On page 52, line 10, you refer to the PDF  
20 administrator's budget.

21 If you recall, how did you become familiar with  
22 this budget?

23 A. I recall looking at a -- I think I recall looking  
24 at a -- I don't know whether it was a spreadsheet of their  
25 expenses or something that showed what they intended to do



1 with advertising and significantly smaller than RCEA. It was  
2 more like our own previous expenditures on specific measures  
3 without the RCEA add-on.

4 Q. And, therefore, did you review the contract or work  
5 plans of the PBF Administrator?

6 A. I don't know whether I specifically reviewed the  
7 contract or what I saw, but I thought I saw some numbers that  
8 showed that their spending was similar to our specific program  
9 measures but did not include an RCEA request -- RCEA like  
10 request.

11 Q. Okay. At this time, I want to point you to the  
12 SAIC contract with PUC and this is CARIR-9, Attachment 2.

13 A. Okay. What of those specific pages do you want me  
14 to look at?

15 Q. Do you have --

16 A. I have access to the full contract pages.

17 Q. You do have the full contract as well, okay.

18 Regarding the contract referring specifically to  
19 page 5 of the document, page 6 of the exhibit, the contract is  
20 exhibit -- CA exhibit -- Hearing Exhibit 1.

21 A. Okay. So page 5 of the contract?

22 Q. Correct.

23 A. Okay.

24 Q. Paragraph No. 3, Compensation.

25 A. Okay.

1 Q. Do you see the reference to compensation and  
2 reimbursements for program administration services and the  
3 total amount to not exceed 11,791,365?

4 A. I see it.

5 Q. Paragraph 3 goes on to reference customer energy  
6 incentives of 26.6 million, which are not included in the  
7 previous figure, and brings the total budget for service to  
8 about 38.4 million as set forth in the last line of the third  
9 paragraph.

10 A. I see that.

11 Q. Would you agree that the Attachment A to this  
12 contract describes the scope of work to be performed by the  
13 SAIC?

14 That would be page 9 of 86 in the CA Hearing  
15 Exhibit 1.

16 A. I see an Attachment A, Scope of Work.

17 Is that what you're referring to?

18 Q. Correct.

19 A. Okay, I see that.

20 Q. And in Attachment A, page 815, paragraph N,  
21 provides that HECO may request and pay for certain services  
22 from SAIC.

23 Do you see that?

24 A. Okay. Where are you?

25 Q. The document page is A-15 or page 23 of 86 of

1 CA Hearing Exhibit 1, Section N, titled HECO Company Utility  
2 Planning.

3 A. Okay, I see it.

4 Q. Are you aware of anyplace in the SAIC scope of work  
5 where HECO is committed to provide funds for any advertising  
6 expenses in support of energy efficiency awareness?

7 A. You mean in this paragraph? I --

8 Q. Or any scope of work that you may be familiar with  
9 in the contract.

10 A. What's the question again?

11 Q. Whether, within the scope of work for SAIC, whether  
12 HECO is committed to provide funds for any advertising  
13 expenses in support of energy efficiency awareness?

14 A. I doubt it. I don't believe so that I know of.

15 Q. And going forward to Attachment B which is  
16 Compensation Payment and Performance Provisions.

17 A. Okay, I see that, ICB-1.

18 Q. Attachment B describes how the SAIC is to be  
19 compensated under the contract. Correct?

20 A. Yeah, it appears so.

21 Q. On page B-4, B-4, or page 28 of 86 CA Hearing  
22 Exhibit 1, and you confirm that the SAIC is eligible to earn  
23 and receive a performance incentive funding of up to  
24 1.6 million as determined by certain attachment, see  
25 performance measures.

1 A. I see that line, yes.

2 Q. Okay. Let me point you to the Attachment C which  
3 starts at page 32 of 86 CA Hearing Exhibit 1.

4 A. Okay.

5 Q. Are you aware that the fees ultimately paid to SAIC  
6 will be influenced by the achieved kilowatt hour and kilowatt  
7 savings as more fully described in the tables narrative  
8 provisions of Attachment C?

9 A. Well, I have a general understanding that that's  
10 true, yes.

11 Q. At page C-7 section -- or paragraph D, what is your  
12 understanding of the term market transformation?

13 A. Where? In reference to this contract?

14 Q. Correct.

15 A. Without going back and reading the contract, I  
16 hesitate to answer that. I didn't -- I'm not a party -- was  
17 not a party to it.

18 Q. Okay. Let me redirect you to Attachment F which is  
19 page 48 of 86 CA Hearing Exhibit 1, Contractor Budget.

20 Do you see that?

21 A. Yes, I do.

22 Q. Do you agree that the SAIC contract includes a  
23 budget for residential programs with advertising of about  
24 211,000 per year and a budget item for C&I programs for  
25 another 259,000 per year?

1 A. Yes, I do.

2 Q. Do you believe it to be fair to HECO ratepayers to  
3 include in HECO rates the opportunity for cost recovery for  
4 any aggressive energy deficiency awareness advertising  
5 campaign when the SAIC has budgeted and will charge ratepayers  
6 for its own planned advertising tailored to achieve energy  
7 savings goals?

8 A. If the only thing that we were doing with money you  
9 gave to us was specifically doing the exact same things that  
10 they're doing, then I would agree that's not fair; but, that's  
11 with my original point, it's not coterminal.

12 Q. And along those lines, HECO's energy efficiency  
13 awareness advertising is charged to customers and proves to be  
14 very effective at driving customers toward DSM programs.

15 Is it fair to make ratepayers pay higher  
16 performance compensation to SAIC under contract Attachment C  
17 than would have been earned by SAIC without such HECO  
18 advertising?

19 A. You know I understand the conceptual unfairness  
20 there. I guess my view is the more the public saves, the more  
21 it saves; and, that, you know, if our combined efforts get it  
22 there or their efforts alone get it there, however we get it  
23 there, everybody wins; and, if that means they make a little  
24 more than an incentive payment, I still think we all win in  
25 the long run as a society.

1                   So I understand your point. I just -- I guess it  
2 troubles me less because I think the customer wins.

3           Q.    Okay. I want to point you to CARIR-9,  
4 Attachment 1.

5                   MR. ITOMURA: Anybody need a copy. Okay?

6 BY MR. ITOMURA:

7           Q.    This appears to be an e-mail from SAIC's program  
8 manager for Hawaii.

9                   Can you tell me who Ray Starling is?

10          A.    Ray Starling is I think -- I believe is the SAIC  
11 person in charge of the office. I'm not sure what his title  
12 is.

13          Q.    What is the status of Item No. 3 which refers to a  
14 joint marketing arrangement with SAIC to share costs and  
15 resources to meet respective market branding, message needs,  
16 all under the umbrella of HCEI?

17          A.    I believe that's something that Ms. Unemori covered  
18 earlier that we had talked to them at the beginning. We  
19 worked on the transitional messages, the ads and, you know, we  
20 did a big rollout at a customer meeting about the transition  
21 over and gave SAIC an opportunity to meet with key clients;  
22 and, then they've been focusing on getting their programs up  
23 and running.

24                   I believe they are now looking for somebody to  
25 assist them with this because I had a call just a week or two

1     ago from somebody in the public relations field asking, you  
2     know, was the Company prepared to work with SAIC on some joint  
3     activities and would we think that's a good idea; so,  
4     obviously, we would because, apparently, they were making some  
5     kind of a proposal to SAIC to work on these issues.

6             So I think, to Mr. Itomura's point, they are moving  
7     to that. We have indicated that we'd be very happy to work  
8     with them on that and hopefully we can begin to pick that up  
9     soon.

10            Q.    Does HECO intend to give valuable marketing support  
11     to SAIC at ratepayer's expense without some equitable  
12     arrangement to have SAIC share such costs?

13            A.    I think our goal would be that we have picked up a  
14     good deal of expertise. I think a good deal of knowledge  
15     about messages that resonate and avenues that you can reach  
16     consumers through and where radio makes sense, where direct  
17     mail makes sense, or TV makes sense; and, we would certainly  
18     feel that, you know, our obligation to SAIC, you know, in my  
19     mind, was given to us by the Commission, which is to cooperate  
20     and help them be very successful.

21            So, again, I wouldn't see it in that light. I'd  
22     actual see that that's our obligation to the Public Benefits  
23     Fund administrator and SAIC in carrying this out.

24            Q.    All right. Thank you, Mr. Alm.

25            MR. ITOMURA: The Consumer Advocate has no further

1 questions.

2 CHAIRMAN CALIBOSO: Thank you.

3 Mr. McCormick?

4 MR. MCCORMICK: No questions from the Department of  
5 Defense.

6 CHAIRMAN CALIBOSO: Commissioners?

7 COMMISSIONER KONDO: Can I ask a clarifying  
8 question, Mr. Alm.

9 In response to a couple of Mr. Itomura's questions,  
10 I think you had said that you're unwilling to -- or the  
11 Company is unwilling to say how many megawatt hours or  
12 megawatt savings are tied to advertising, did you mean to say  
13 you were able to say, not unwilling to say?

14 MR. ALM: You know I'm not sure it was you. I  
15 think it was the Chairman. I was asked that specific question  
16 in RCA docket. Will you give me a megawatt hour savings  
17 attached to an advertising?

18 And what we said is, you know, it's impossible to  
19 define it that way. There's specific advertising going as to  
20 solar roof. So is the RCEA discussion cutting your bill or  
21 whatever? So we said no. And I'm still saying a specific  
22 megawatt attachment to a commercial, no.

23 COMMISSIONER KONDO: You're saying you're unable  
24 to. I'm just trying to get an understanding of the use of the  
25 word "unwilling," because if you're unwilling, I want to know



1     why you're unwilling, but it sounds to me really what you  
2     meant was you're unable, so that's all I was trying to get to  
3     look --

4             MR. ALM:   Unable.

5             COMMISSIONER KONDO:  -- at first of all.

6             MR. ALM:   Unable.

7             COMMISSIONER KONDO:  Okay.  The exhibit that  
8     Mr. Itomura talked to you about -- I'm sorry, not the exhibit,  
9     the CAIR-416, it has the amount that HECO spent on RCEA  
10    advertising in 2007 and 2008.

11            Do you see that part of the exhibit?

12            MR. ALM:  I'm sorry.  I closed the book.  Yes.

13            COMMISSIONER KONDO:  And those are actual spent  
14    moneys out of HECO's pocket.  Correct?

15            MR. ALM:  Well, as I said before, the ratepayer is  
16    responsible to Hawaiian Electric.

17            COMMISSIONER KONDO:  I didn't mean anything by  
18    that.  I mean, it's actually money --

19            MR. HEMPLING:  Right.

20            COMMISSIONER KONDO:  -- that HECO pays to somebody?

21            MR. ALM:  Yes.

22            COMMISSIONER KONDO:  Now look at the portion of the  
23    report that Mr. Itomura provided to you.  That's also  
24    CAIR-401.  It's, I guess, page 5 of 62.

25            MR. ALM:  This is?

1 COMMISSIONER KONDO: It's the results of the  
2 program evaluation.

3 MR. ALM: Oh, yeah, okay.

4 COMMISSIONER KONDO: Do you see that?

5 MR. ALM: Yes.

6 COMMISSIONER KONDO: And I understand from the  
7 following page, the sample size is 401 customer. I assume  
8 they're customers.

9 MR. ALM: Yes.

10 COMMISSIONER KONDO: Do you see that?

11 MR. ALM: Yes.

12 COMMISSIONER KONDO: Other than the line that says,  
13 Take action as a result of advertising 4.6 percent, I know I  
14 talk to Ms. Unemori this morning about that number. Correct?

15 Do you see that number in the chart?

16 MR. ALM: Yes, I do.

17 COMMISSIONER KONDO: Do I understand that the next  
18 lines are saying that the action that those people took  
19 27.2 percent of the total number of people surveyed installed  
20 CFLs, 13.2 percent of those people surveyed turned off lights;  
21 so, that's 40.4 percent and that means that 6.2 percent did  
22 something else.

23 So you're saying that the Company spent -- I'm  
24 going to guess, because this survey was done June 12th through  
25 the 23rd of 2008, I'm going to guess the Company spent over

1 \$2 million in advertising and the results of that expenditure  
2 is that you got 27.2 percent of the population of ICFLs (sic)  
3 and 13.2 percent of the population to turn off lights.

4 Is that prudent expenditure of that amount of money  
5 for that type of awareness and then not only awareness but  
6 action that's being taken by people that are being exposed to  
7 this advertising?

8 MR. ALM: I think Ms. Unemori also gave you some  
9 numbers that suggested that the purchase of CFLs save more  
10 money than what was added to their bills by paying RCEA.

11 COMMISSIONER KONDO: Although, I'm going to guess,  
12 and you can correct if this guess is wrong, but I'm going to  
13 guess that part of the reason why we had a tremendous amount  
14 of CFLs that were purchased during the specific amount of  
15 time -- period time was because of the coupons; and, I also  
16 have an understanding, I think, probably from briefings by  
17 your Company, that there may be a point of saturation of the  
18 CFL market.

19 So given those two assumptions, and like I said,  
20 correct me if I'm wrong, even with those two assumptions,  
21 isn't it not a logical conclusion that Ms. Unemori's statement  
22 about the value of the CFLs versus the cost of the advertising  
23 it may have been for that period of time but that may not be  
24 something moving forward?

25 MR. ALM: Right. So that's why you move the

1 campaign on to other activities that the consumers can take.  
2 You're right. I mean, if you get -- if we transformed the  
3 market, my use of the term, so that CFLs now occupy most of  
4 the space at a Longs Drugstore shelf, which they do, then  
5 we're over the hump on that one and we probably don't have to  
6 spend advertising on CFLs.

7 Energy Star appliances showed a significant  
8 awareness of it. Have we moved the market the same way on  
9 Energy Star? When they were asked what action they took, I'm  
10 sure there's a line for how many went out and bought an Energy  
11 Star appliances. It didn't probably register besides the  
12 other two that would have been listed.

13 Phantom loads, you know, the nation of Germany has  
14 spent tens of millions advertising on the issue of phantom  
15 load, you know. So could we do campaigns and would we have  
16 done them to take on pieces of the conservation issue, add a  
17 different piece every year, absolutely, because you don't stay  
18 with the same one --

19 COMMISSIONER KONDO: Okay. And that's the  
20 reason --

21 MR. ALM: -- once you've gotten behavior to.

22 COMMISSIONER KONDO: And thank you because that's  
23 really an actually good point.

24 Of the advertising dollars that were spent through  
25 this program was the majority of that advertising focused on

1 CFLs?

2 MR. ALM: For one period of time, we had that year,  
3 right, the coupons were winning as that part of the program.

4 COMMISSIONER KONDO: Okay. No, I guess, I'm asking  
5 more broadly. Of the, you know, 3.4 or \$5 million that were  
6 spent on this program was the majority of the focus of the  
7 advertising relating to CFLs?

8 MR. ALM: No, I don't know the majority. I mean,  
9 we could go back and get the ads and their specific buy. CFLs  
10 is one of them; also, in that, was the Energy Star appliances.  
11 We did specific ads on Energy Star appliances. Those tend to  
12 be big, single purchases unlike going in and buying a light  
13 bulb; so, you probably would not expect as many people to run  
14 out and buy an Energy Star appliance, but you do want it in  
15 their head that when the refrigerator breaks and they go in,  
16 you want it in their head, I want Energy Star.

17 COMMISSIONER KONDO: I understand your point and  
18 Ms. Unemori's point about the value to the system for CFLs  
19 versus the cost of that advertising; and, I also appreciate  
20 your comment right now about Energy Star appliances, it's not  
21 go buy a \$3 or \$2 or \$1 CFL. It's a much larger commitment of  
22 money; especially, in these economic times.

23 Given that situation, the fact that you're now  
24 talking about a significant purchase, is there that same value  
25 in spending so much money on advertising when the likelihood

1 that the majority of the people that are hearing the  
2 advertising or advertisement are not able to perhaps to make  
3 that purchase in response to that advertisement?

4 MR. ALM: I think that's why and it was also, I  
5 believe, at least Ms. Unemori's or maybe Mr. Hee's testimony,  
6 is the other thing we worry some about is the way that you do  
7 that is that you continue some level of that kind of  
8 advertising over the long haul. You know, we probably  
9 wouldn't focus a whole year on Energy Star; but, if we had the  
10 program, and even if you give us information on advertising a  
11 piece of what we do, we'll continue to be Energy Star, because  
12 we want that in people's heads when they make those infrequent  
13 but still significant purchases.

14 COMMISSIONER KONDO: And don't get me wrong, I'm  
15 not arguing with you --

16 MR. ALM: I know.

17 COMMISSIONER KONDO: -- about that. I'm just  
18 wondering whether or not you need to have same frequency of  
19 advertising for something like an Energy Star appliance versus  
20 a CFL where, you know, people have light bulbs that burn out  
21 every day and they need to make a purchase, that has to be in  
22 their mind right now versus a bigger purchase like a  
23 refrigerator or some other type of appliance.

24 MR. ALM: No --

25 COMMISSIONER KONDO: I'm just suggesting that

1 perhaps maybe the amount of money you need for advertising  
2 might be less because of the target now and maybe you can  
3 correct me why that might not be the case.

4 MR. ALM: No, I think that in the case of CFL we  
5 did a very concentrated year plus that included not only doing  
6 the advertising of the coupons we also met with the folks who  
7 run Longs, who run CostCo, who run Walmart, because if you go  
8 to create a need, you better have someone that's selling it  
9 and try to make sure that they had bulbs available to meet the  
10 program that we are outreaching.

11 So that was a real concentrated attempt to flip the  
12 market over and, you know, I don't think our ads alone. High  
13 prices sure help; because, at that point, people were really  
14 looking for an action that they could take.

15 So, I mean, to your earlier point, you know, you  
16 also have, you know, when you have a burning platform in  
17 somebody's mind, you have a very receptive audience to make  
18 that change. I don't think we would do like a concentrated  
19 one year on Energy Star for the very reason you're saying.

20 What you wanted is a consistent theme in the back  
21 of their mind, but would we have gone on to something like  
22 phantom loads for a year, we might have. In the school  
23 program that we're doing, part of what we created out of this  
24 was a DVD that's handed out in schools, and it's a bunch of  
25 kids working with Jade Moon walking through a house figuring

1 out how they can lower the energy amount used by that house;  
2 and, we specifically sent that CD into the schools and with  
3 our school program to do that that was funded out of this, and  
4 that guided issues like phantom load, which we felt that if  
5 one of the kids could attach themselves to.

6 So I think if we are still doing RCA, you would  
7 probably be three or four initiatives and not just focused on  
8 that CFL, because, you know, you get -- there are some you can  
9 make a transformation of and there are some that you have to  
10 have a drumbeat, and we're continuing the drumbeat on Energy  
11 Star; even if you don't give us this, we're going to continue  
12 the drumbeat on Energy Star.

13 COMMISSIONER KONDO: I don't think it's the  
14 question, but I just want to make a short comment, I guess,  
15 because I think the programs you're looking at, they have a  
16 lot of merit, but, I think, my concern is -- and I know it's  
17 early in the game kind of thing, but what you're describing  
18 about the schools program, I know I've heard Ray Starling talk  
19 about something very similar.

20 Knowing that, I think it concerns me a little bit  
21 that the Company is not working perhaps more closely with SAIC  
22 on what they're looking to do.

23 Like I said, I know it's pretty early in the game;  
24 but, by the same token, if the Company is not aware that the  
25 SAIC is looking at things that sound similar to what you're



1 describing.

2 But, anyway, thank you for your response.

3 CHAIRMAN CALIBOSO: Mr. Alm, just one thing if you  
4 could clarify it for me, please.

5 MR. ALM: Sure.

6 CHAIRMAN CALIBOSO: You were talking earlier about  
7 perhaps using this type of informational advertising to  
8 address newbie-ism and the problem with, I think, citing and  
9 getting things done basically; and, you heard our conversation  
10 earlier with Ms. Unemori where some things are not recoverable  
11 by public utilities in rates, some public relations costs and  
12 things like that.

13 MR. ALM: Right.

14 CHAIRMAN CALIBOSO: Could you just distinguish for  
15 the record that the difference between that type of community  
16 relations and the type of public relations that are not  
17 recoverable in rates?

18 MR. ALM: I think if the ad says, you know, what  
19 great people Hawaiian Electric are. You know, just seeing --  
20 well, I guess, this is probably treading on dangerous ground  
21 because of other people, but there are certain advertising  
22 going on that just showed the employees of how great people  
23 they are and they're your neighbors and you should love them;  
24 and, I think that's probably below the line of advertising,  
25 but if we're just trying to say we're great people, love us,

1     that that's different.

2             I think if on the newbie-ism, for example, one of  
3     the -- after talking to some groups, what we found is people  
4     feel like they are the only ones who are being asked to take  
5     on a burden; so, there were some ads that we ran, heavily  
6     printed with Jay Moon showing all the different projects in  
7     all the neighborhoods across the State; and, one of the  
8     messages we were trying to get in there is a lot of us are  
9     involved in this.

10            And a lot of different neighborhoods and a lot of  
11   different islands are being asked to be part of the energy  
12   puzzle, because what we wanted people is not to simply say I'm  
13   the only one that's going to take a burden, because one of the  
14   things when we survey that comes is why should I take a burden  
15   if my neighborhood across the street isn't saving money when I  
16   do, sort of, you know, why only me.

17            And so one of the things we tried to make sure  
18   people understood is that there are literally dozens of  
19   communities across the state that are being asked to be part  
20   of the move to renewable energy.

21            So that kind of thing, I would say as a broad  
22   public benefit, it doesn't specifically help Hawaiian  
23   Electric. In fact, the only people it will help right now are  
24   our PPAs. It's not even helping us except in the sense that's  
25   it going to help us to try to get those projects. I mean, we

1 can have the greatest PPA process in the word and if the  
2 community stops the projects by land use permitting in the  
3 neighborhoods, we won't get it.

4 We signed a PPA with Kahuku's First Wind. If the  
5 Kahuku community fights that and the relevant permitting  
6 agencies turn it down, we got a great contract with First Wind  
7 that will never produce a megawatt of wind energy; and, I  
8 think that's one of the biggest challenges we have in Hawaii,  
9 we all love the concept of renewable energy until it shows up  
10 next door and then all of sudden now we've got reservations  
11 about renewable energy; so, that's the kind that (inaudible).

12 CHAIRMAN CALIBOSO: Thank you.

13 Any other questions?

14 COMMISSIONER KONDO: Can I ask you one more  
15 question, Mr. Alm?

16 MR. ALM: Sure.

17 COMMISSIONER KONDO: What is your role in the  
18 advertising that the company does that we're talking about?

19 Are you involved in deciding what the target should  
20 be or what the ad should be or anything like that?

21 Can you describe your role, I guess, is the  
22 question?

23 MR. ALM: The area works for me but I've had an  
24 (inaudible) from the day I joined the Company when I was at  
25 the Department of Commerce and Consumer Affairs, we actually

1 persuaded the legislature to let us do consumer advertising to  
2 warn them of scams and other kinds of things, and we both  
3 learned a lot about the weaknesses of that kind of advertising  
4 but also the strengths of it; so, I mean, I've had a long  
5 passion for the fact that if you want to do behavioral change,  
6 you're going to have to advertise and you probably have to hit  
7 people on TV and radio where they go.

8           So, you know, as Lynne tried to say, when we get  
9 professional buyers, they pick the right audiences, they'll  
10 have the maximum penetration to get people listening; so, it's  
11 a passion for me.

12           COMMISSIONER KONDO: No, I wasn't questioning that.

13           MR. ALM: I'm involved in it.

14           COMMISSIONER KONDO: No, I'm questioning -- I'm  
15 just wanting to understand if the Company decides we're going  
16 to target Energy Star appliances, for instance, are you  
17 involved in that decision?

18           Are you involved in the discussions?

19           MR. ALM: I have been, yes.

20           COMMISSIONER KONDO: I'm sorry?

21           MR. ALM: I have been, yes.

22           COMMISSIONER KONDO: Is that something on a  
23 permanent basis; or, when you use the words "have been," is  
24 that in the 2007-2008 timeframe, are you still involved in  
25 that?

1 MR. ALM: As long as I'm with the Company, I would  
2 be heavily involved.

3 COMMISSIONER KONDO: And who else is involved in  
4 that with you?

5 MR. ALM: Ms. Unemori, Mr. Willoughby, Mr. Hee,  
6 Ms. Hecklethorn, Peter Rossi has been, Darren Pye has been;  
7 and then we've been working with a group called Core Group  
8 One, it's an advertising firm; and, then Jade Moon has  
9 personally been involved in a lot of it herself.

10 COMMISSIONER KONDO: Thank you.

11 CHAIRMAN CALIBOSO: Thank you.

12 Mr. Williams, any redirect?

13 MR. WILLIAMS: No, Mr. Chairman. I thank the  
14 Commission and the CA for asking the questions.

15 CHAIRMAN CALIBOSO: Thank you.

16 That's all for Hawaiian Electric's witnesses.  
17 Correct?

18 MR. WILLIAMS: That is correct, Mr. Chairman.

19 CHAIRMAN CALIBOSO: We can move next to the  
20 Consumer Advocate's witness, but we should take our afternoon  
21 break. I know it's a little late, but let's cut it a little  
22 bit shorter and make sure we can finish with Mr. Brosch today.

23 So let's just take a 10-minute break and come back  
24 at ten till four.

25 We are in recess.

1 (Whereupon, at 3:39 p.m., a recess was taken, and  
2 the proceedings resumed at 3:50 p.m., this same day.)

3 CHAIRMAN CALIBOSO: Good afternoon.

4 This hearing is reconvened.

5 Off the record a second.

6 (Discussion off the record.)

7 CHAIRMAN CALIBOSO: We're back on the record.

8 Mr. Itomura, you can present your witness.

9 MR. ITOMURA: Thank you, Chair.

10 DIRECT EXAMINATION

11 BY MR. ITOMURA:

12 Q. Can you please state your name for the record?

13 A. Michael L. Brosch.

14 Q. You're the sponsor of testimony CA T-1 and CA T-5,  
15 along with Schedule C-21. For the purposes of today's panel  
16 the informational advertising specifically refers to pages 114  
17 through 118 of CA T-1, including the Schedule C-21; is that  
18 correct?

19 A. Yes, it is. Schedule C-21 actually is part of  
20 Exhibit CA-101; but, yes.

21 Q. At this time, could you provide a brief summary for  
22 the Commission.

23 A. Yes, I will. Thank you.

24 The advertising issue before you now is here  
25 because utility spending levels on informational advertising

1 are largely discretionary; and, the primary message associated  
2 with the advertising at issue here was previously included in  
3 HECO's RCEA program.

4 HECO presented its explanation of cost recovery and  
5 justification for cost recovery of that program in  
6 Docket No. 2008-0341, including evidence of the effectiveness  
7 of energy efficiency advertising; and, upon the review of that  
8 evidence, the Commission denied HECO's request to continue  
9 RCEA funding.

10 So, at this time, the Consumer Advocate presents  
11 the issue desiring PUC clarification on whether, when  
12 disallowing RCEA, it intended that we add up to 1.1 million  
13 into HECO base rate revenue requirements for a replacement  
14 program similar to RCEA.

15 The adjustment at Schedule C-21, in Exhibit CA-101,  
16 reduces the Company's proposed test year nonlabor  
17 informational advertising expense from 1.1 million to \$342,000  
18 for the test year. The 342,000 amount is based upon the  
19 three-year average of the Company's actual spending in the  
20 years 2006 through 2008, above and beyond spending on RCEA and  
21 any DSM surcharge funded advertising.

22 This reduced spending level recommended for  
23 including of the revenue requirement by the Consumer Advocate  
24 will allow HECO to spend on Safety Rule 16 Damage Claim, sun  
25 power for schools and other miscellaneous advertising programs

1 where historical spending levels have been approximately  
2 100,000 year.

3 This level will also allow HECO to spend, as  
4 authorized by the Commission, to support its direct load  
5 control programs and recover those costs through the IRP DSM  
6 surcharge.

7 And, finally, HECO will have funding available to  
8 spend on image enhancement and any other advertising messages  
9 with any excess cost above the 342,000-dollar allowed level  
10 chargeable below the line.

11 Additionally the PBF Administrator SAIC intends to  
12 do its own public outreach, including approximately 400,000  
13 per year in informational advertising; so, whatever HECO  
14 spends to promote energy efficiency awareness, should be  
15 viewed as additive to SAIC's advertising expenditures.

16 The CA's view is that ultimately this issue is a  
17 policy issue about whether the Commission wishes to replace  
18 RCEA with some incremental additional nonlabor advertising  
19 expense allowance in revenue requirements.

20 That concludes my summary.

21 Q. Mr. Brosch, you made reference to  
22 Docket No. 2008-0341 in your brief summary.

23 Did you mean to state 2007-0341?

24 A. I'm sure I did. Yes, thank you.

25 Q. Thank you.



1 MR. ITOMURA: Mr. Brosch is available for  
2 cross-examination.

3 CHAIRMAN CALIBOSO: Thank you.  
4 Mr. Williams?

5 MR. WILLIAMS: Thank you, Mr. Chairman.

6 CROSS-EXAMINATION

7 BY MR. WILLIAMS:

8 Q. Goof afternoon Mr. Brosch.

9 A. Good afternoon.

10 Q. Since you gave a very short summary and it solely  
11 depended on how long your summary was, I guess my cross now  
12 has to be short.

13 (Laughter.)

14 A. A lot of pressure.

15 Q. There's a lot of pressure here.

16 So I'm going to pick and choose.

17 Should HECO support the SAIC DSM efforts?

18 A. I would think so, yes. Certainly, in transition  
19 and in a coordination role, HECO would be an important  
20 resource to SAIC as it assumes the responsibilities set forth  
21 in this contract with the Commission.

22 Q. Should the Hawaiian Electric's account managers  
23 encourage their customers to conserve more energy to use it  
24 more efficiently?

25 A. Yes, I would think so.

1           Q.    If Hawaiian Electric agreed to use to allow bill  
2 inserts for SAIC would that be a subsidy that Hawaiian  
3 Electric should avoid?

4                   I guess what I'm asking you, Are you the sponsor of  
5 this subsidy argument that Mr. Itomura was asking our  
6 witnesses about?

7           A.    I alluded the argument to counsel, but I would  
8 think that HECO should be able to come up with some reasonable  
9 arrangement through which SAIC could be accommodated with bill  
10 inserts; and, if HECO incurs incremental costs to provide that  
11 coordination effort, it might seek reimbursement for those  
12 costs.

13           Q.    If HECO includes the costs of its account managers  
14 and rates, but you don't deem that to be know an unfair  
15 subsidy to SAIC if they support conservation and energy  
16 efficiency, do you?

17           A.    I hadn't thought about that. You may be on to  
18 something.

19                   (Laughter.)

20           Q.    Is that an answer to the question, Mr. Brosch?

21           A.    No, I don't consider that as an answer.

22                   I do know that, through discovery responses, HECO  
23 was actually seeking an arrangement by which it could be  
24 compensated for some joint support efforts with SAIC.

25           Q.    Actually, they could do some DSM programs as well;

1 isn't that correct?

2 A. That is correct, yes.

3 Q. Are you an expert on advertising, Mr. Brosch?

4 A. It would probably depend on one's definition of  
5 "expert." I'm here talking to you about it in some capacity.  
6 I've testified about advertising and utility cost recovery  
7 proposed for advertising on numerous previous occasions.

8 Q. Neither one of those two attributes confers  
9 expertise. They're either an expert by training, education or  
10 experience.

11 Do you have those attributes with respect to  
12 advertising?

13 A. I have a Business Administration Degree where I  
14 certainly had coursework many years ago in marketing and  
15 advertising, and I just discussed with you my experience.

16 Q. As a witness?

17 A. Yes.

18 Q. So in terms of the overall level of advertising  
19 that's appropriate to change behavior, are you an expert on  
20 that subject?

21 A. I've not addressed that in my testimony and not  
22 claim to be an expert on that subject.

23 Q. Do you have the response to CA-IR-416?

24 A. 416?

25 Q. 416 --

1 A. Yes.

2 Q. -- that Mr. Itomura was using.

3 A. I'm looking at it, yes.

4 Q. Okay. And there's -- he has pointed to the utility  
5 advertising line, the actual expenditure line; is that  
6 correct?

7 A. In party, yes, I see that.

8 Q. And relied on the average for 2006 through 2008?

9 A. I did.

10 Q. And the amount expended in 2005 was 554,000; is  
11 that correct?

12 A. It was.

13 Q. And you've heard the testimony that we're on track  
14 to spend on the order of a million dollars this year?

15 A. Yes, I recall that.

16 Q. So if the average were expanded to include either  
17 more recent data for the entire period of data for which we  
18 have information, the average expenditure level would be  
19 considerably above \$342,000; would it not?

20 A. If you expanded the calculations to include one  
21 additional historical year, it would move the number up  
22 somewhat, yes. And with respect to the million-dollar  
23 expanded in 2009, it's anticipated; if that were included,  
24 depending on how many years went with it, the number would be  
25 different, yes, and higher.

1           Q.    And if we look at the total spend levels for  
2 informational advertising and direct DSM advertising as well  
3 as RDLC, we have on the order of 2.9 to 3.5 million in 2007  
4 and 2008; largely, because we had an RCEA program; is that  
5 correct?

6           A.    You're asking about the 2007 and 2008 total  
7 amounts?

8           Q.    Yes.

9           A.    Yes, they were 3.5 and 2.9 million respectively and  
10 inclusive of the RCEA numbers shown there.

11          Q.    And I believe the number you gave me for SAIC was  
12 on the order of 400,000; is that correct?

13          A.    400,000 per year is an approximation if you add the  
14 residential and commercial lines of their plan -- or, excuse  
15 me -- their contract budget.

16          Q.    And if we add to that, the Consumer Advocate's  
17 proposal of 342,000 for Hawaiian Electric, that's a total of  
18 approximately 742,000?

19          A.    If you add 400 to the 342, yes, you get 742.

20          Q.    And that would be in contrast to levels of -- well,  
21 you'd have to add some RDLC expenditure because we still get  
22 to do some of that; is that correct?

23          A.    I'm not sure what we're adding toward but perhaps.

24          Q.    I'm trying to get the total drop-off in advertising  
25 expenditures if we rely on the SAIC amount versus -- plus the

1 amounts you're leaving the utility by your proposal.

2 A. Let me try this and you can tell me if I'm going  
3 where you want me to be. You had me add the SAIC annual spend  
4 of about 400 to the CA recommended level of 342; and, if I  
5 were to add the RDLIC and call that another 300, we're  
6 somewhere north of a 1,042,000.

7 Q. Versus on the order of 3 to 3.5 million before?

8 A. I see that reference, yes.

9 Q. And that would be a substantial drop-off in total  
10 expenditures?

11 A. Four advertising --

12 Q. For advertising.

13 A. -- using those categories, yes, it would.

14 Q. And this is at the same time that the State has  
15 decided, through its legislation, that the goals for the State  
16 in terms of energy and efficiency and renewable energy, which  
17 we haven't even talked about, have been vastly expanded; is  
18 that correct?

19 A. I understand there have been expansions and those  
20 expectations, yes.

21 Q. But you disagree with the word "vast" that I tried  
22 to insert into that question because I can walk through that.

23 A. They are significant.

24 MR. WILLIAMS: Mr. Chairman, that's all the  
25 questions I have.

1 CHAIRMAN CALIBOSO: Thank you.

2 Mr. McCormick, do you have a long list?

3 MR. MCCORMICK: No questions from the Department of  
4 Defense.

5 CHAIRMAN CALIBOSO: Thank you.

6 Questions from the Commission?

7 Mr. Brosch, just one question.

8 I understand your position in the categories of  
9 messages or advertisements that the Consumer Advocate does not  
10 feel it should be included in the information of advertising.

11 You've heard a few categories of items that were  
12 mentioned by Mr. Alm today and about addressing newbie-ism and  
13 possibly using it for other initiatives to educate the  
14 program.

15 Are there any other categories of advertising,  
16 other than what you've already accepted in your testimony or  
17 to the average that you came up with, that would be acceptable  
18 to the Consumer Advocate?

19 MR. BROSCH: Nothing really comes to mind. I think  
20 the discussion we've had today is a fairly all-inclusive  
21 listing of the kinds of advertising that utilities are  
22 typically involved with.

23 I would agree with the thought that it's difficult  
24 to take apart who benefits from the message in a particular  
25 ad, where, for instance, an ad that has, as its primary

1 purpose, encouragement of conservation of energy, and then  
2 bears a tagline and logo of an entity like HECO, clearly some  
3 measure of benefit from that ad is image enhancement for the  
4 utility and the costs of that kind of advertising typically  
5 are borne below the line and not included in revenue  
6 requirement; so, it's difficult to unpack those benefits.

7 CHAIRMAN CALIBOSO: What about just, for example,  
8 if the Company wanted to use informational advertising to, as  
9 Mr. Alm mentioned, getting community support for renewable  
10 energy projects or various other initiatives, would that be  
11 acceptable?

12 MR. BROSCHE: It could be. If you reviewed the  
13 substance of those ads and the plan to make the public aware  
14 of using mass media of that message and found it to be cost  
15 effective, I think that could be a permissible category of  
16 advertising. That was not -- that messaging was not part of  
17 the Company's direct case; so, we didn't have much of an  
18 opportunity to attest those theories in this proceeding.

19 CHAIRMAN CALIBOSO: Thank you.

20 COMMISSIONER KONDO: Can I ask a question?

21 I'm sorry, I want to ask a question actually.

22 Now you started off by talking about it's  
23 ultimately a policy decision for the Commission to make, and I  
24 just want to understand what you meant by that.

25 Is what you mean by that if the Commission decides



1 that the Company continues to have some responsibility to put  
2 the message out about energy efficiency then perhaps we should  
3 look at a number that is higher than what the Consumer  
4 Advocate has suggested, however if we decide that that  
5 responsibility has primarily -- and I'm talking very  
6 generally -- but primarily has shifted to SAIC then, perhaps,  
7 the Commission should consider a number more in the range of  
8 what the Consumer Advocate had suggested?

9 Did I understand that to be correct?

10 MR. BROSCHE: No, I think you've -- I think you got  
11 it, yes, that is the point. The information that we work with  
12 and had from the Commission was that this messaging, like  
13 RCEA, was to be terminated because of the transition to  
14 third-party benefit -- or, excuse me, third-party PBF  
15 administration.

16 COMMISSIONER KONDO: Okay, thank you.

17 CHAIRMAN CALIBOSO: Mr. Itomura, any redirect?

18 MR. ITOMURA: Just one.

19 REDIRECT EXAMINATION

20 BY MR. ITOMURA:

21 Q. Mr. Brosch, notwithstanding HECO's counsel's probe  
22 into specific expertise in marketing and advertising, was it  
23 the purpose of your testimony to clarify HECO's content and  
24 purpose for informational advertising and the Commission's  
25 intent to deny rate base recovery for the RCEA program in a

1 prior docket?

2 A. My intent was to bring the issue to the Commission  
3 with reference to its decision in the prior docket.

4 MR. ITOMURA: Thank you.

5 CHAIRMAN CALIBOSO: All right. Thank you.

6 No other witnesses, right, Mr. Itomura for this  
7 topic?

8 MR. ITOMURA: For the purpose of informational  
9 advertising, the Consumer Advocate has no further witnesses.

10 CHAIRMAN CALIBOSO: Thank you.

11 We are scheduled to do the next panel or topic next  
12 week on Cost of Capital; so, we will recess until next week,  
13 Monday, at 9 a.m.

14 Before we close are there any questions?

15 MR. WILLIAMS: Yes, Mr. Chairman. You had posed  
16 that question of how we would prioritize various actions on  
17 the part of the Commission.

18 Should we address that as well on Monday?

19 CHAIRMAN CALIBOSO: Would you explain again?

20 MR. WILLIAMS: Yes. During the questioning  
21 earlier, I believe, we had questions about how we would  
22 prioritize things such as CT-1 cost recovery, decoupling, both  
23 the RAM and sales decoupling, IFRP surcharge, the PPAC.

24 We would be prepared to address that on Monday, if  
25 that would help the Commission.

1 CHAIRMAN CALIBOSO: Well, we don't have the panel  
2 in which that was raised. It might be better if you either  
3 save that for closing and you can also include that in your  
4 post-hearing briefings.

5 COMMISSIONER KONDO: Who is the witness,  
6 Mr. Williams, for that discussion?

7 MR. WILLIAMS: That would be Mr. Alm.

8 COMMISSIONER KONDO: I mean, who was the witness at  
9 the time?

10 Was it Mr. Alm?

11 MR. WILLIAMS: No, it was not Mr. Alm.

12 CHAIRMAN CALIBOSO: I think it was Ms. Sekimura.

13 MR. WILLIAMS: It was Ms. Sekimura.

14 COMMISSIONER KONDO: And what's wrong with her  
15 testimony?

16 I'm not understanding what --

17 MR. WILLIAMS: There's nothing wrong with the  
18 testimony. We just wanted to make sure that we had clarified  
19 what our position was if the Commission wanted to understand  
20 fully what that was. We weren't planning any extensive  
21 testimony on this one.

22 CHAIRMAN CALIBOSO: You can put that in your  
23 closing statement or your post-hearing briefs.

24 All right. So we will recess and reconvene on  
25 Monday morning.

1                   We are in recess.

2                   (Whereupon, at 4:09 p.m., the hearing was adjourned  
3 and is to be resumed on Monday, November 2, 2009, at 9 a.m.)  
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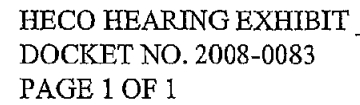
## C E R T I F I C A T E

This is to certify that the attached proceedings before the Public Utilities Commission of the State of Hawaii In the Matter of the Application of Hawaiian Electric Company, Inc. For Approval of Rate Increases and Revised Rate Schedules and Rules, at 465 South King Street, Honolulu, Hawai'i, commencing, on Friday, October 30, 2009, was held according to the record, and that this is the original, complete, and true and accurate transcript that has been compared to the reporting or recording, accomplished at the hearing, that the exhibit files have been checked for completeness and no exhibits received in evidence or in the rejected exhibit files are missing.

*Tristan-Joseph, CSR No. 469, RPR No. 24906*

TRISTAN-JOSEPH, CSR NO. 469, RPR NO. 24906



[illegible]

Hawaiian Electric Company, Inc. • PO Box 2750 • Honolulu, HI 96840



David G. Waller  
Vice President  
Customer Solutions

August 1, 2006

Re: Hawaiian Electric Company, Inc. Maximum Renewable Energy Effort

Dear Prospective Honolulu Seawater Air Conditioning, LLC Customer:

The purpose of this letter is to urge you to carefully consider utilizing renewable energy deep-water cooling for your building's air conditioning requirements.

You may be surprised that HECO would urge you to consider converting your air conditioning system from an electricity dependent stand-alone air conditioning system to a service that uses less electricity. This letter reflects HECO's strong and unequivocal commitment to utilizing all feasible renewable energy sources on our island of Oahu. Of course, HECO will lose electric sales. HECO and our community will gain:

- reduced dependence on imported fossil fuels;
- help with generating stability;
- offset the growing demand for electricity;
- help to meet Hawaii's renewable energy goals;
- encouragement of renewable energy programs that are environmentally beneficial.

This letter should be viewed as a recommendation to carefully consider the HSWAC proposed renewable energy program for your building. Each customer must review HSWAC on its merits and this letter is an endorsement of the renewable energy elements of that program.

As further evidence of our commitment to renewable energy programs, we hope our headquarters located at 900 Richards Street will be the first or among the first buildings to join the HSWAC system. We will turn off our condensers, the cooling towers and related pumping equipment and convert to renewable energy.

Should you have any questions regarding this matter please contact your HECO Account Manager or our Account Management Offices at 543-4751.

Sincerely,





## Honolulu Seawater Air Conditioning, LLC

Affiliate of Market Street Energy Company, LLC, the "Red Hot, Cool & Green™" Company

7 Waterfront Plaza, Suite 400; 500 Ala Moana Boulevard  
Honolulu, Hawaii 96813

August 1, 2006

Re: Hawaiian Electric Company, Inc. Maximum Renewable Energy Effort

Dear Customer:

HSWAC is delivering the enclosed copy of the August 1, 2006 Hawaiian Electric Company, Inc. letter regarding the HSWAC renewable energy program.

In the 27 years I have been active in energy matters, I am not familiar with any investor owned utility that has recommended to its electricity customers consideration of an independent renewable energy service. There are numerous examples of other private utilities, general support for renewable energy projects, but the enclosed letter is concrete evidence of an unmatched renewable energy commitment from a large electric company.

Each building owner/manager must make its own determination regarding the suitability of HSWAC's district cooling service. We are very grateful to add HECO's support to our renewable energy efforts. Of course, we welcome HECO as one of our first downtown customers.

It is the fervent hope of HSWAC that HECO will be recognized by its national and international peers, environmentalists and renewable energy advocates for this selfless action.

Very truly yours,

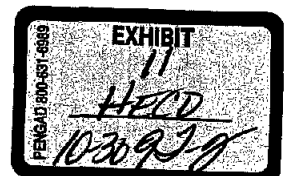
Honolulu Seawater Air Conditioning, LLC



By: William M. Mahlum  
Chief Executive Officer

Telephone: (808) 543-2024

Facsimile: (808) 543-2010



- 1) Focused Regulatory Audits are suggested for the following areas of special interest to help resolve the following known and/or anticipated ratemaking issues:
  - a) CT-1 construction cost reasonableness
  - b) East Oahu Transmission project construction cost reasonableness (upon completion)
  - c) CIS Project cost reasonableness (upon completion)
  - d) HECO Companies' productivity analysis (if used in an approved RAM)
  - e) HECO Companies' effectiveness in meeting HCEI performance obligations (for 2011 rate case)
  - f) Periodic (ongoing) Financial Attest Audits to confirm accuracy and present any issues arising from existing and proposed surcharge filings of each regulated utility:
    - i) ECAC
    - ii) PPAC
    - iii) IRP/DSM
    - iv) RBA/RAM
- 2) Focused Management Audits (process issues) within HECO
  - a) Technology (AMI and CIS) enabled TOU and other Pricing Initiatives
  - b) Process issues to efficiently implement CESP filing and review.
  - c) Capital projects management, cost control and accounting processes.
- 3) Regulatory Audit Processes should be controlled by a designated PUC agent, with involvement of an advisory group in each of the following steps.
  - a) Project Scoping and solicitation:
    - i) Define the problem and detailed questions to be independently asked & answered.
    - ii) Identify qualifications required of auditor
    - iii) Specify preliminary project schedule and deliverable due dates
    - iv) What Docket(s) will "receive" the audit report?
    - v) What review criteria and scoring will be applied to proposals?
    - vi) How will independence (avoidance of conflicts of interest) be assured?
  - b) Proposal Review and Contracting
    - i) What parties/people and process be used to grade the proposals?
    - ii) Who will award contract(s)?
    - iii) Budgetary constraints and cost/quality ratings
    - iv) Contract structure (client, contacts, commercial terms)
  - c) Project Management
    - i) Who is the client and sponsoring entity (PUC or CA)?
    - ii) Sources of policy guidance to the auditor (contacts, advisory groups)
    - iii) How will audit work plan be reviewed/approved?
    - iv) How will work progress be tracked and managed?
    - v) Information processing – formal IRs? Interviews?
    - vi) Discovery dispute resolution
    - vii) Confidentiality protection.
    - viii) Who will review, approve and pay invoices?
    - ix) How will project costs be recovered?
  - d) Project Completion
    - i) Draft Report Distribution/comment
    - ii) Final Deliverables distribution (Report, Workpapers, References)
    - iii) Discovery to Auditor and/or utility.
    - iv) Response opportunities for parties (CA, Utility, Intervenor)
    - v) Provision for written & live testimony and hearing support by the Auditor

